

U.S. Forecast Sees Surge in GNP, but High Jobless Rate

By Jonathan Fierberg
New York Times Service

WASHINGTON — The Reagan administration, in its midyear economic forecast to be released soon, has a relatively optimistic outlook for growth for the rest of this year and next, but still predicts unemployment will be over 9 percent at the end of 1982 and will average just below 8.5 percent in 1983, administration economists said.

At the same time, a leveling off of the inflation rate at about 6.5 percent is forecast for this year and next.

The outlook, which is close to an administration forecast made earlier this year, is more optimistic than predictions by many private forecasters, who have been scaling back their hopes for the recovery next year as interest rates remain high.

Several administration officials acknowledged Saturday that the administration did not make major revisions in its economic outlook because any downward revision would raise the projected deficit in the budget resolution Congress approved last month.

Impact on Budget Process

Congress was barely able last month to approve a 1983 budget resolution with a deficit of \$103.9 billion, because many conservative members wanted to hold the figure under \$100 billion. An official said that raising the estimates for the deficits now would make it even more difficult for Congress to approve the spending cuts and tax increases to implement the resolution's guidelines.

The administration will not undertake a thorough review of the economic outlook until fall, when work begins on the fiscal 1984 budget, one official said.

The administration took the same approach on its midyear economic review last year. The release of the July 1981 review came just weeks before Congress was to vote on President Reagan's tax cuts.

Although there were signs the economy was not as weak as the administration laid out in the beginning of 1981, the economic forecast was barely touched, and projections that included a balanced budget by 1984 were not disturbed. Officials acknowledge this was done to prevent an undermining of support for the president's tax cut, which would have added to the deficits.

About a month later, when the president signed the tax cut, administration economists acknowledged that the economy was growing and that the hope for a balanced budget was fading.

According to administration officials, the new forecast will show the gross national product, after adjustment for inflation, rising between 4 and 5 percent for the last two quarters of this year and through 1983.

The unemployment rate, which was at a post-World War II record of 9.5 percent in June, is not expected to decline much before the congressional elections in November or before the end of the year.

The average unemployment rate

for the last three months of the year, an official said, is projected to be just over 9 percent. Average unemployment for all of 1983 is expected to be "just a shade below 8.5 percent," he added.

On inflation, the forecast will show the implicit price deflator, which is considered to be a more accurate inflation measure than the closely watched Consumer Price Index, at an annual average of about 6.5 percent for 1983.

One of the most optimistic assumptions in the forecast, an official said, is the outlook on interest rates. While he would not give the exact figures, he acknowledged that these numbers approximate the economic outlook agreed to in April by the negotiators for the administration and Congress before compromise talks on the budget broke down.

These figures assume the rates on three-month Treasury bills, now at 12 percent, will fall sharply to just under 9 percent in 1984, and to just under 7 percent in 1985. Many private and government economists contend this projection is far too optimistic.

By contrast, many private economists have cut their growth rate predictions for 1983 and 1984 to less than 4 percent. The most recent forecast by Chase Econometrics, an economic consulting firm, predicts the GNP will grow at an annual average rate of 3.7 percent in 1983 and 3.8 percent in 1984.

Chase also predicts unemployment will average 8.8 percent in 1983 and fall to an average of 7.8 percent in 1984.

However, Chase's inflation forecast is slightly more optimistic than the administration's, with the price deflator averaging 5.9 percent in 1983 and 6.5 percent in 1984.

Slower Recovery Envisaged

SANTA BARBARA, Calif. (AP) — Larry M. Speakes, the White House deputy press secretary, said Saturday that in spite of public optimism on the economy, administration officials realize that recovery this year may be slower than previously predicted.

"If interest rates hang in there at the higher levels, the economy may not be as robust as we anticipated," Mr. Speakes said.

He said that administration officials saw the first signs of an upswing two or three months ago, but that interest rates have continued to hold the economy down.

Mr. Reagan has no plans to modify his economic policies before the November congressional elections, Mr. Speakes added.

Stockman Sees Improvement

WASHINGTON (UPI) — Budget Director David A. Stockman said that unemployment will be "a lot lower" by the 1984 presidential election.

"Nobody wants unemployment to rise," Mr. Stockman said in the current issue of U.S. News and World Report. "It's simply part of the unfortunate, but temporarily unavoidable, process of repairing the economy."

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Once in the city, he wrecked a streetcar and damaged sidewalks and overhead power lines, 14 automobiles and three light posts. Then he moved the tank onto the Neckar bridge but, when military policemen appeared at both ends of the bridge, he reversed gears and the tank crashed through the bridge railings into the river.

At a news conference Sunday, U.S. Army officials said that when the tank was caught on the bridge the driver appeared to swing the main gun around as though aiming at military police. But they said that in line with regulations for tanks not in use, the vehicle, although carrying a normal load of

ammunition, was without its firing mechanism.

Brig. Gen. Eugene Cromartie of the U.S. 8th Infantry Division said the driver managed to get the vehicle off the army base despite elaborate safety precautions.

"We know we can protect ourselves from the outside. Now we have to learn to protect ourselves from the inside," he said, adding that "irrational acts" can never fully be controlled.

Fuel Leakage Ruled Out

Two attempts by American forces to heave the tank from the muddy river bed failed Saturday night. West German rescue teams with a heavy barge crane finally succeeded in lifting the tank onto land about 24 hours after it sank, police said.



A police chaplain, the Rev. Peter Rogers, administers last rites to a victim of the Pan Am crash.



Firemen and rescue workers examine the wreckage near New Orleans International Airport.

Pan Am Jet Crashes in a Suburb Of New Orleans; 153 Are Killed

Compiled by Our Staff From Dispatches

NEW ORLEANS — A Pan American World Airways jet crashed in a residential area just after taking off from New Orleans, killing all 145 persons on board and eight on the ground.

The crash Friday was the second worst single-plane accident in U.S. airline operations, following the May 25, 1979, crash of a DC-10 at O'Hare International Airport in Chicago in which 275 persons died.

The Boeing 727 had stopped over in New Orleans on a flight from Miami to Las Vegas and San Diego.

It crashed into the suburb of Kenner, two miles (3.2 kilometers) east of the takeoff runway at New Orleans International Airport, heavily damaging a four-square-block area. More than a dozen houses were destroyed by fire.

Witnesses said that it was raining at the time of the crash and that there were thunderstorms in the area.

But officials of the National Transportation Safety Board, which is investigating the accident, discounted reports that the plane might have been struck by lightning.

Patricia Goldman, vice chairman of the safety board, said Sunday that the first 25 eyewitnesses to be interviewed agreed that the plane had not been hit by lightning.

She said that flashes reported by some observers might have been from power lines that the plane hit as it went down.

Miss Goldman said that two in-flight data recorders were recovered Saturday from the plane's tail section, but that a recording of conversation between the plane's captain and the control tower revealed nothing unusual.

Pan Am said there were 138 passengers and a crew of seven aboard the Boeing. Virtually every seat was occupied on the plane, a late model known as a Dash-200.

Local officials said eight persons died on the ground and that at least three others were hospitalized in serious or critical condition.

Gov. David C. Treen said he planned to declare the neighborhood a disaster area to help speed the restoration of services.

"This is an awful tragedy, very, very grim and very depressing," he said. Gov. Treen called on National Guardsmen to help residents whose homes were damaged.

House Levelled

Victor Dean, a Pan Am employee who lives near the point where the Boeing 727 hit, said that the impact leveled a neighbor's house.

He said that the neighbor had used his telephone to report that his wife and three young children had been inside the house.

A Kenner fire dispatcher said that the impact was accompanied by explosions and that debris was scattered over an area four blocks by six blocks.

It was the first major crash of a U.S. airliner since Jan. 13, when an Air Florida twin-jet 737 crashed in a snowstorm just after taking off from Washington National Airport. Seventy-four passengers and crew members were killed as well as four persons who were on a bridge that the plane struck.

Last Tuesday, a Soviet Aeroflot flyushin-62, a four-engine jet, crashed after taking off from Moscow's Sheremetyevo Airport, killing an estimated 90 persons.

"Wind Shear"

A possible explanation for the crash, aviation experts said, was "wind shear," an atmospheric condition that can exert violent downward pressure on planes that pass near storm cells.

Some witnesses said the jet's engines apparently stopped before the plane hit the ground, which experts said could have resulted if the plane had passed through extremely heavy rains.

Whatever disabled the Pan Am jet, its ability to recover would have been impeded because it was carrying a full load of passengers and fuel for its flight to Las Vegas.

A safety board official confirmed that USAir canceled a flight that had been scheduled to take off just before the Pan Am plane. The reason for the cancellation was unclear.

The Pan Am crash came at a time when the airline has been hit by severe economic problems. Some industry observers have said that this year's holiday-season business could determine whether the carrier can remain solvent. Pan Am has been faced with extraordinary expenditures connected with its merger with National Airlines in 1980. In the merger, Pan Am acquired domestic routes that it felt it needed to feed passengers to its international runs.

New Cease-Fire in Beirut Halts Intense Fighting

Compiled by Our Staff From Dispatches

BEIRUT — Israeli and Palestinian forces fought their heaviest artillery and rocket duels Sunday over West Beirut in the five-week-old war, but the guns fell silent at nightfall under another U.S.-arranged cease-fire.

The shelling was so intense that negotiators were unable to travel to meetings, but Lebanon's state radio reported that the U.S. team managed to get agreement on a cease-fire after the Lebanese premier, Shafiq al-Wazzan, pleaded for intervention to "stop this mad bombardment." He said that Beirut "is being destroyed piece-meal."

Police said that at least 52 persons were killed and 135 wounded as barrages of artillery shells fell in the western sector of the capital. Shells also fell in East Beirut.

Huge fires were burning out of control in an abandoned luxury hotel on Beirut's southern beach and in the Chatilla camp near the command headquarters of Yasser Arafat, leader of the Palestine Liberation Organization.

U.S. and Lebanese mediators were unable to meet Sunday to discuss the Arafat plan for a military disengagement as shells fell near their mansions in Moslem West Beirut and the Christian suburbs of Baabda and Yazza, five miles (eight kilometers) east of the city. The shelling began at mid-morning and lasted into evening.

Israeli shells and rockets landed almost continuously in widespread areas of West Beirut, where an estimated 6,000 Palestine Liberation Organization guerrillas are besieged with about half a million Lebanese and Palestinian civilians.

Lebanese state and privately owned radio stations appealed to the civil defense corps and fire brigades on both sides of the line that splits Beirut into Moslem western and Christian eastern sections to help fight the fires and rescue victims from devastated buildings.

The Palestinians fought back with mortar fire and salvos of rockets fired from multiple-tube launchers.

An Israeli military camp near Baabda took a direct rocket hit, said a thick column of black smoke and four or five burnt-out trucks could be seen. In Tel Aviv, the military command said three soldiers were wounded.

Hospital Hit

A government hospital in Baabda was also hit by three 120mm rockets, causing damage but no casualties. At the nearby presidential palace, guards ran for cover as 11 mortar shells crashed into the palace terrace and garden. They smashed windows and set afire a bus in the motor pool next door.

On Friday an agreement to end the monthlong war appeared in sight, with the PLO agreeing in principle to Israel's demand that it should leave Lebanon. Syria looked to be the most likely destination for the guerrillas.

But then the Syrian government announced that although it might allow the PLO leadership to set up its headquarters in Damascus, it had no room for the thousands of PLO fighters.

Lebanese government sources said a trip to Damascus by Morris

Draper, the U.S. deputy assistant secretary of state, had failed to persuade Syria to change its mind. The Syrian refusal left the negotiations in Beirut marking time, with no meetings scheduled before

Documents indicate that Asian and African mercenaries are fighting with the PLO. Page 2.

tween Lebanese leaders and U.S. officials or PLO leaders.

However, Mr. Wazzan was preparing to convey to U.S. envoy Philip C. Habib a new disengagement plan proposed by Mr. Arafat.

The 11-point blueprint, which Mr. Arafat described as his "final bottom line," calls for the early deployment of a peacekeeping force in Beirut's western half to enforce the 10 other articles, the independent Beirut newspaper an-Nahar reported.

This reflected France's agreement on Saturday to supply troops that would separate the withdrawing Palestinians from their Israeli and Christian foes. Earlier, the United States had suggested the force take up positions only after a PLO withdrawal.

Other articles in the new Arafat plan include a total cease-fire, and an Israeli pullback from current positions surrounding Beirut simultaneously with a PLO withdrawal from West Beirut into neighboring refugee camps and an international guarantee of the PLO's safety in these camps, the paper said.

Once the mutual withdrawals are completed, the PLO would enter into talks with the Lebanese government to complete details of the PLO evacuation from the Lebanon by land under the supervision of the disengagement force, the Arafat plan proposes.

Begin Is Said to Study Beirut Military Options

Compiled by Our Staff From Dispatches

JERUSALEM — Prime Minister Menachem Begin is studying military alternatives to force Palestinian guerrillas from Beirut after having received pessimistic reports on the progress of negotiations to solve the problem peacefully, a Cabinet source said Sunday.

The source said the Cabinet had been told at its routine meeting Sunday that no progress was being made at negotiations conducted by Philip C. Habib, the U.S. envoy to the Middle East.

"A number of ministers complained that Israel was receiving misleading information about results of the talks," the source told reporters. "These ministers recalled that Mr. Habib had said he expected the Palestinian terrorists to start getting out of Beirut either today or tomorrow."

"It now also appears we were misled to believe the terrorists had agreed to drop demands for continued presence in Beirut even after their main forces leave," he said. "We assume Mr. Habib has been misled by those conducting direct negotiations with the terrorists."

The United States has had no direct contacts with the guerrillas but has used Lebanese politicians as go-betweens.

The Middle East affairs editor of state-run television, Ehud Ya'ari, now in East Beirut, reported Saturday that the Habib plan also calls for a phased Syrian-Israeli withdrawal to follow immediately and for Lebanese Army regulars to move into the vacated areas with the help of a multinational force, which is to include troops from the United States, France and Canada.

Mr. Habib hopes that the Lebanese parliament can be convened in West Beirut by mid-August to elect a new president, Mr. Ya'ari said. Under the Lebanese constitution a new president must be elected by Sept. 23.

Israel has been saying for two weeks that it insists on a speedy removal of the guerrillas from Beirut. Each Cabinet meeting has ended with intimations, official or unofficial, that Israel would wait no more than a few days.

The source said the guerrillas "by stalling at the talks and shelling our forces obviously want to turn the conflict into a long drawn-out war of attrition, a situation Israel will not tolerate."

Immediately after the Cabinet meeting, Dan Meridor, Cabinet secretary, had reported, "The negotiations are going on, but time is not unlimited."

Mr. Meridor said "nothing yet has been decided" on an Israeli deadline for the guerrillas' departure from Beirut. The Israeli media reported that Mr. Habib had set Aug. 1 as "an informal target date" for reaching a settlement.

There is widespread opposition to an invasion of Beirut, because of the casualties the Israelis would probably sustain in house-to-house fighting and the international criticism it would come under.

An opinion poll of 1,164 Israelis conducted by the Dahaf Research Institute, published Sunday in the daily Yedioth Ahronoth, found that two out of three Israelis are against invading the Lebanese capital. It said 83 percent support the war, but 68 percent are against carrying it into Beirut.

The military command reported 28 Israeli soldiers had been wounded in exchanges of cannon and rocket fire Sunday. Eleven others were injured in fighting Friday and Saturday, the army said.

Six Lebanese children were killed and 18 injured when the truck in which they were traveling struck a mine in central Lebanon, the military command said. The truck, carrying 50 children, hit the mine in the Bekaa Valley, about 27 miles (43 kilometers) north of the Israeli border.

U.S. Soldier Takes Tank On Rampage

Driver Killed, 4 Hurt In West German City

Compiled by Our Staff From Dispatches

MANNHEIM, West Germany — A 50-ton U.S. Army tank careened through central Mannheim on Saturday, scattering shoppers in a pedestrian mall and causing damage estimated at 2 million Deutsche marks (\$800,000), police said.

The M-60 tank finally plunged off a bridge and landed upside down in 15 feet (about five meters) of water in the Neckar River. The driver, an unidentified 20-year-old U.S. Army private, was found dead, apparently drowned, inside the vehicle Sunday when it was hauled from the river.

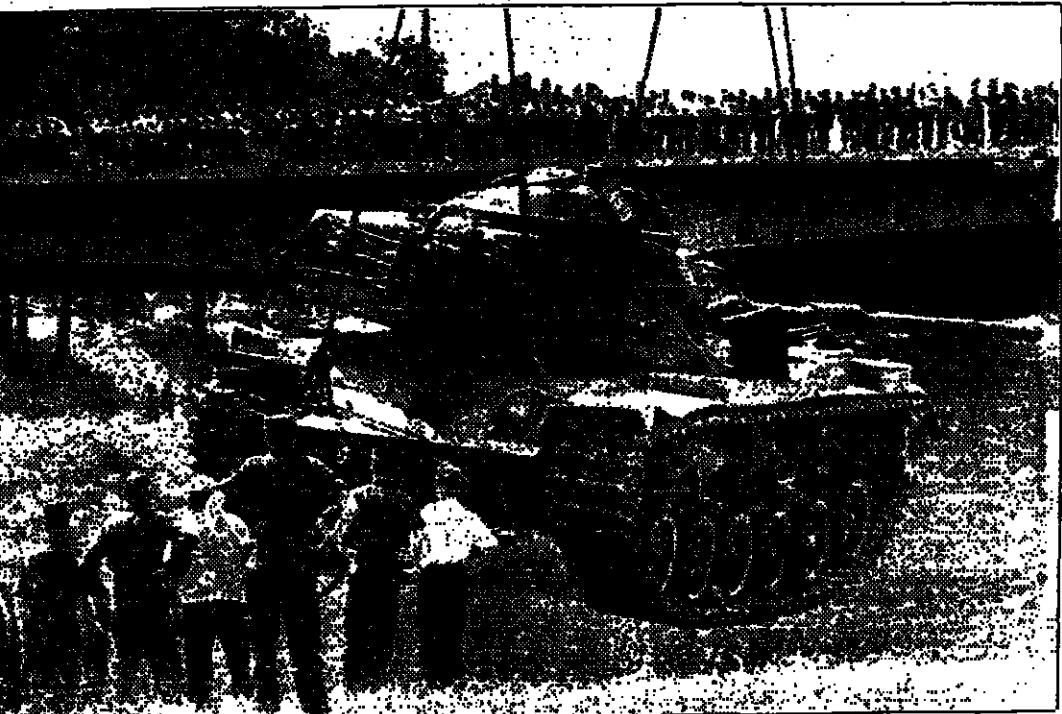
His identity was being withheld until his family could be notified. An army spokesman said there was no explanation of why he had taken the tank and gone on the rampage.

Mannheim police said four persons were injured, one seriously. An American sergeant who jumped onto the tank to try to stop it dislocated his shoulder when he was thrown off the vehicle.

Lock Broken

The incident began Saturday afternoon, a U.S. statement said. The soldier, on his way to guard duty, went to his unit's vehicle pool and gave the security guard the necessary papers to get in, the statement said.

Then he apparently broke the lock on one of the hatch covers to get into the tank, which he normally was assigned to drive, and set



A tank is lifted from the Neckar River after a soldier's rampage in Mannheim, West Germany.

off, plowing through a fence and driving onto a main highway leading into Mannheim, the statement said.

Once in the city, he wrecked a streetcar and damaged sidewalks and overhead power lines, 14 automobiles and three light posts. Then he moved the tank onto the Neckar bridge but, when military policemen appeared at both ends of the bridge, he reversed gears and the tank crashed through the bridge railings into the river.

At a news conference Sunday, U.S. Army officials said that when the tank was caught on the bridge the driver appeared to swing the main gun around as though aiming at military police. But they said that in line with regulations for tanks not in use, the vehicle, although carrying a normal load of

ammunition, was without its firing mechanism.

Brig. Gen. Eugene Cromartie of the U.S. 8th Infantry Division said the driver managed to get the vehicle off the army base despite elaborate safety precautions.

"We know we can protect ourselves from the outside. Now we have to learn to protect ourselves from the inside," he said, adding that "irrational acts" can never fully be controlled.

Fuel Leakage Ruled Out

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John Gergulis, commander of the 3d Brigade, to which the private was attached, said there was no danger that diesel fuel from the M-60 leaked into the river since the vehicle's fuel tanks were tightly sealed.

Streetcar traffic came to a halt for two hours Saturday after the tank rammed overhead power lines at a major tram intersection.

The destroyed streetcar was valued at \$300,000. "It was a miracle no one in the streetcar was injured," a police officer said.

Damage claims will be examined by West German officials and handed to the U.S. Army, which under North Atlantic Treaty Organization statutes is liable for civil damage caused by the incident, Gen. Cromartie said.



ITALY WINS WORLD CUP — Marco Tardelli, right, kicks the ball past West German defender Bernd Förster, to score Italy's second goal in the final of the World Cup in Madrid Sunday night. Italy won, 3-1, for its first World Cup championship since 1938. Page 13.

INSIDE

■ OPEC's production and pricing agreement effectively collapsed when oil ministers failed to decide how to manage overproduction and underpricing by some members. Page 7.

■ With their desire to develop and modernize the country, Chinese are more than simply curious as they question visiting Americans, Europeans and Japanese. Xenophobia still runs deep, but there is increasing realization that the country will have to learn from foreigners in order to advance. Page 2.

■ A study published by the Institute of Foreign Policy Analysis in Washington advocates withdrawing most United States ground forces from Europe and South Korea and relying more on sea power to defend American interests abroad. The

study reflects a spreading sentiment in Congress to reduce American forces in Europe and Asia and to make Europeans and Asians assume more responsibility for their defense. Page 3.

■ The Reagan administration is considering a proposal to let Japan and West Germany finance and participate in a full-scale test of a nuclear fuel reprocessing plant in South Carolina capable of producing weapons-usable plutonium, the Energy Department said. The proposed "cold test" of the Bawell reprocessing plant — which would begin in late September and run for about 10 days — would not involve any fission products, but would demonstrate how safeguards at the plant would function if it were turning out plutonium that could be used in making nuclear bombs. Page 3.

Papers Seized by Israelis in Lebanon Say PLO Hired Mercenaries and Trained in Eastern Bloc

By Bernard Weinraub
New York Times Service

WASHINGTON — Israel has given U.S. intelligence officials documents and other information obtained in Lebanon, indicating that mercenaries from India, Pakistan, Bangladesh and various African nations were fighting with the Palestine Liberation Organization. At the same time, the Israelis also gave U.S. officials an account of what they considered the surprisingly large stores of weapons seized by Israeli troops in Lebanon. Among these weapons, the Israelis said, were American M-16 rifles that had been sold to Saudi Arabia.

Copies of the documents, most of which were given to President Reagan late last month by Prime Minister Menachem Begin, were made available here by Israeli officials. The documents seem clearly designed to undermine the Israeli contention that the PLO has emerged as an increasingly powerful military force with links to terrorist organizations and Eastern-bloc nations.

List of 'Comrades'

The documents offer a glimpse into some of the PLO's relationships abroad. A diary found in Tyre, for example, said: "The comrades from Malawi started their studies [June 23]. The comrades from South Africa have departed [May 16]. Final exam for the El Salvador course [February 26]. The comrades from Haiti started their studies [April 6]."

A five-member group arrived from Turkey [June 4]. One battalion list, seized in Sidon, lists the names, rank and military identification numbers of various Palestinian officers and the overseas training they received. Many attended military schools in the Soviet Union, China, Cuba and Algeria. Other lists showed that numerous Palestinian troops took "sabotage" and anti-aircraft training in Pakistan, armor and engineering courses in India and side defense studies in Vietnam and Austria.

A State Department official, discussing the apparent use of foreign troops by the PLO, said the United States had already received "various reports" of this but had no direct confirmation. The official said the captured documents provided by the Israelis seemed "perfectly authentic."

A ranking Israeli military official in Washington said the "surprise" at the number of "foreigners" seized by the Israelis in Lebanon in recent weeks. Of the 6,000 captured, the official said, about half were Palestinian. Although many of the "foreigners" held Lebanese passports, there were said to be at least 400 men from Bangladesh, 60 from Pakistan, 50 from India and troops from Mauritania, Sudan, Niger, Mali, Somalia, Turkey, Sri Lanka, Algeria, Syria, Jordan and Iraq.

In Washington, Ambassador K.R. Narayanan of India said his government had seen reports that there were Indian mercenaries fighting with the PLO but denied it, and a spokesman for the Bangladesh Embassy said his government had "no knowledge" of Bengalis fighting with the PLO. A senior official with the Pakistani Embassy said, "We don't know whether this is accurate."

Economic Motive

Israeli officials said that the troops from other countries were paid monthly wages — the exact amounts are unknown — and Israeli officials speculated that economic, as opposed to ideological, motives spurred the troops to join the Palestinian forces.

"The PLO has a great deal of money to spend," an Israeli official said. "These people came mostly from poor countries. Here they received a salary, food and clothes."

Israeli officials denied newspaper reports that Germans and Italians linked to terrorist groups had been seized, although documents picked up at some base camps near Beirut indicated some Europeans had been trained there. There was no evidence of Americans working with the PLO, the Israelis said.

Several documents focused in detail on attacks against Israeli

towns, and others cited the Palestinian strategy of placing troops in populated areas. One report, dated May 28, 1981, said:

"The built-up areas in the town of Sidon and surrounding villages are excellent areas for shelter. The trees enable complete camouflage and concealment for vehicles and personnel. Positions should be taken up in the built-up areas in Sidon, the refugee camps and villages."

Another message, sent from

"Artillery Corps Commander, Joint Forces, South," listed targets in Israel, the units that would perform artillery missions and how many rounds were to be expended.

The Israelis have told American officials that more than 4,000 tons of Soviet-made ammunition, 12,000 rifles and handguns, 600 heavy weapons, including artillery, and 400 pieces of signal and communications equipment have been seized in recent weeks by Israeli troops at more than 100 storage depots.

One of the more unusual documents is described as a summary of talks between PLO officials and Soviet diplomats in Moscow, including Foreign Minister Andrei A. Gromyko. On the Palestinian side, the talks, which took place on Nov. 13, 1979, were led by an official named Abu Amar.

In the course of the talks the PLO official said that "no country, except for Syria and Iraq, helps us" and that the Palestinians faced a "shortage of everything."

Israeli Soldiers Expressing Doubts About Military's Role in Lebanon

By William Branigan
Washington Post Service

BEIRUT — As Israeli invasion forces begin their second month in Lebanon, there are signs of doubts and concerns among some of the troops about Israel's military role here. According to two junior officers, opposition in Israel to the involvement here — especially large anti-war demonstrations — is a major topic of conversation among the troops.

Some Israeli soldiers also seem to be sensitive about accusations that they are inflicting heavy civilian casualties on the Lebanese population. And some reportedly are questioning whether this is really a "defensive" war, as their leaders have told them.

No Loss of Discipline

However, there is no sign yet that anti-war sentiment in Israel or the troops' questions are affecting their discipline or ability to fight. And the soldiers appear heartened by the generally welcoming attitude so far of the Lebanese Christians, in whose zone the Israelis have installed themselves around Beirut.

A principal subject of debate among the soldiers, according to some who talked to reporters, is a recent demonstration of an estimated 50,000 people in Tel Aviv organized by the Peace Now movement.

"My men are arguing about it," said a 22-year-old first lieutenant guarding one of the crossing points into West Beirut. "They discuss it a lot."

He said he felt the organizers of such demonstrations "should wait until the fighting here is over. It's not nice to have that going on when you're fighting."

But he said, "My opinion is we won't find a solution by war. Even if we take over their side [West Beirut], it will leave many terrorists. They will start all over again somewhere else. You can't deny 5 million Palestinians. They have their own rights."

While he did not think Israeli troops were afraid to assault West Beirut, he said, there was concern about potentially high casualties. "Every soldier thinks about it, especially if they see their friends get killed," he said.

'Third Thoughts'

"Of course the demonstrations have an impact on everybody," said a 31-year-old medical officer named Moses. "We have second thoughts and third thoughts about this war."

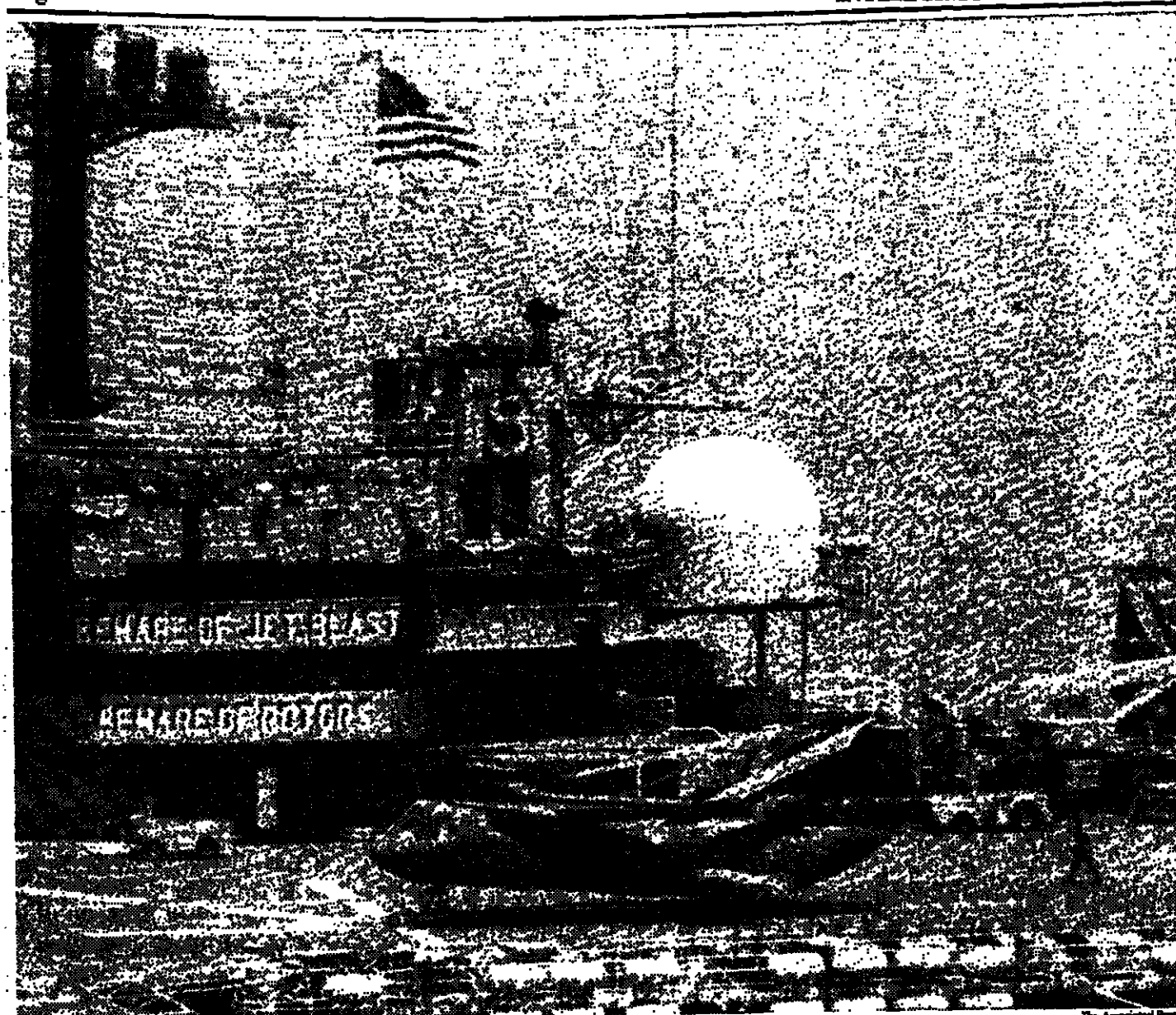
He added, "There's a feeling we're not fighting our war," a reference to the question of whether it is a defensive or offensive battle. Moses said he felt "ambivalent" about these questions and said he knew of no one who had refused to fight for political reasons.

Moses, a reserve officer from Jerusalem, said he took offense at suggestions by opponents of the Israeli involvement in Lebanon that the Israeli troops were waging an "inhumane" war. He said there were strict instructions not to shoot at anyone who surrendered and that wounded Palestinians were well treated, often being sent to hospitals in Israel for special care.

Refusals to Bomb

He said there had been cases of Israeli pilots refusing to bomb their targets because they were in populated urban areas. He said a friend returned from one mission with his bomb racks still fully loaded. He was supposed to hit a Palestine Liberation Organization headquarters, Moses said, but there were too many civilians in the streets around the target.

The pilot was not punished, Moses said, because standing instructions permit flyers to refrain from bombing if they do not have a clear target.



The U.S. helicopter carrier Guam, part of the 6th Fleet, was about 50 miles from Beirut on Sunday.

Reagan Policy Course for Lebanon Aftermath Holds Prospect of Reaching Key Mideast Goals

By Bernard Gwertzman
New York Times Service

WASHINGTON — Amid the carnage and chaos of the Lebanon crisis, the Reagan administration may have happened on a course that, while full of obvious risks, holds out the prospect of some windfalls for U.S. objectives not anticipated when Israel invaded Lebanon more than a month ago.

Much depends on the negotiations being conducted in Beirut by the administration's special envoy, Philip C. Habib. If he proves the skeptics wrong and devises a formula acceptable to all parties — Israel, the several Lebanese political factions, the Palestine Liberation Organization and Syria — then the United States could find itself with the most promising opportunity for negotiations since the Egyptian-Israeli peace treaty was signed in 1979.

If he fails, and the Israelis give up on diplomacy and decide to annihilate the PLO forces in West Beirut, then the United States could find itself blamed for sanctioning the inevitable bloodshed. In the uproar over such military action, Washington could be left without much leverage on future Middle East developments.

Mr. Habib's diplomatic efforts have been all the more remarkable because they have taken place at a time when the administration's foreign policy often seemed to lack focus and was torn by internal dis-

agreements. Alexander M. Haig Jr., who had been directing Middle East policy, resigned as secretary of state in the middle of the crisis, in part over his perception that William P. Clark, the national se-

NEWS ANALYSIS

curity adviser, Defense Secretary Caspar W. Weinberger and Vice President Bush were conspiring to sabotage his efforts.

Without the benefit of foreign policy experience, George P. Shultz, Mr. Haig's designated successor, will be thrust into the Middle East maze this week when he undergoes questioning at his confirmation hearings. Among the questions Mr. Shultz will surely be asked is whether his business connections in the Arab world as chief officer of the Bechtel Group Inc. have given him a pro-Arab bias.

As in 1973, the new opportunities for U.S. diplomacy in the Middle East have resulted from a local upheaval. In 1973, President Anwar Sadat engineered the Egyptian-Syrian attack on Israel to produce an atmosphere conducive to an eventual political settlement and recovery of land lost by Egypt to Israel in the previous war.

If an agreement is worked out by Mr. Habib, the United States has promised to contribute 800 to 1,000 troops to an international (partly French) force that would protect the departing Palestinians

from the Israelis and the remaining Palestinians from Lebanese Christian militias. Once a settlement was in place, the following scenario would not be out of the question in coming months:

Mr. Reagan, in consultation with Mr. Shultz, would declare peace in the Middle East as the administration's highest priority, and a prominent American, perhaps even Henry A. Kissinger, would be appointed as special negotiator.

No longer having a Palestinian military threat on its borders, Israel would be asked by Washington to carry out its Camp David pledge to negotiate seriously with Egypt to conclude a self-government agreement for the 1.3 million Palestinians in the occupied West Bank and Gaza Strip. Those talks for a five-year interim administration have been deadlocked for more than two years, largely because of Israeli intransigence.

Doubts on Israel

Critics of Prime Minister Menachem Begin's government believe that Israel will never negotiate seriously for Palestinian autonomy because it wants to incorporate the West Bank into Israel. But in the aftermath of Lebanon, Mr. Begin may feel under pressure to repair relations with both Washington and Cairo. To do so, he must show more diplomatic flexibility, particu-

larly if he is to persuade his many critics in the U.S. Congress to supply the economic wherewithal to pay for Israel's latest war, and the costs of maintaining U.S. forces in Lebanon.

As unilateral steps to improve relations, Mr. Begin could stop dismissing Palestinian mayors in the West Bank and establishing new Jewish settlements there.

In the Palestinian camp, the weakening of the PLO as a military force will probably produce divergent approaches. Some factions may push for a return to reliance on terrorism, but others may try to turn defeat into a political victory by seeking enhanced international standing. Some leaders may seek U.S. recognition, even if this means publicly accepting Israel's right to exist.

Reagan Still Offering Troops

WASHINGTON (AP) — President Reagan said Sunday he is wary of sending U.S. troops in Lebanon but that he would do so "if it was essential to bringing peace." But Mr. Reagan told reporters aboard Air Force One that the Lebanese government still has not made a "formal invitation."

Later, the deputy White House press secretary, Larry M. Speer, said the U.S. role is "not finally or firmly determined."

A Prince of the Druze Salutes Israeli Invasion

Rightist Seeks Power for Lebanese Military Under a Strong President

By Henry Kamm
New York Times Service

BEIRUT — On the patio of his palace outside Aleh in the wealthy suburbs of Beirut, surrounded by retainers who are always at hand to light his cigarettes, Prince Faisal Majid Arslan, leader of the more conservative of Lebanon's two Druze factions, spoke approvingly of the Israeli invasion.

"There is no other solution," said the prince, who wore a pale pink suit over a bright pink shirt. About the future, he said: "We will have to wait. We hope the Israelis won't do the same as the other armies who came to give us hope for peace. Our hopes were disappointed." His retainers nodded assent while clicking their worry beads.

The prince commands the loyalty of about half the Lebanese members of the Druze religion, an offshoot of Islam. He said that after the Israelis had driven Pales-

tinians and Syrians from Lebanon, power should be given to a strong Lebanese military under the command of a strong president.

Prince Faisal said President Elias Sarkis should ask the leaders of all the many religious and political factions in Lebanon to meet with him. He said the president should then tell them, "He who wants to, shake hands with me, and I am ready to make a strong government."

The Druze leader smiled when asked what those who did not shake hands would do. He said it had even proved impossible to arrange a meeting between Lebanon's two major Druze leaders. He said Walid Jumblatt, head of the leftist faction, "won't come out of West Beirut" to meet him.

"If all the foreigners are out of Lebanon, in less than a day, in two hours, the Lebanese will manage themselves," Prince Faisal said. "Outsiders are Lebanon's disease." Israeli officers who took part in

the leisurely discussion involving members of various rightist Lebanese factions kept smiling. By the end of the discussion, Prince Faisal did not know how long Israeli troops should stay to assure stability. "That depends," he said.

Asked why Lebanese who wanted the ouster of Palestinians and Syrians from their country were relying on the Israeli army to do the work, the prince shrugged. But the Rev. Joseph Tounes, a prominent member of the Maronite Church, Lebanon's largest Christian group, responded vehemently. "Because the Palestinians have robbed our army of its dignity."

Many Christian intellectuals differentiate between the Lebanese and the Arabs. None do so with more fervor than a group led by two widely published and respected poets, Said Akl and May Murr, who consider the people of Lebanon descendants of the ancient Phoenicians.

Their movement has an armed faction known as the Guardians of the Cedars. Mr. Akl, the leader of the force, said he had 4,000 fighters under his command. The guards have recently discovered a sense of kinship with Israel.

On her first visit to Israel last week, Mrs. Murr met with Prime Minister Menachem Begin for 45 minutes. An informed Israeli source said the Begin government would sponsor a tour of Europe by Mrs. Murr during which she would expound her views.

"Israel and Lebanon are two twins of civilization, to which the world owes almost the entirety of its civilization," said Mrs. Murr, 52, who teaches history at Lebanese University and the Lebanese Military Academy.

Mr. Akl, 70, said, "We are happy that the Israeli Army has come to do this heroic labor." He said the invaders were "cleaning Lebanon of the Palestinian dirt."

'How Big Is the Rice Ration?' — China's Curiosity About the West Grows

By Michael Parks
Los Angeles Times Service

CHENGDU, China — "If Americans are so rich, why do they eat so many potatoes?" No answer was really adequate to bridge the cultural differences reflected by this Chinese college student's question.

In China, rice and wheat are what people want — grain is four-fifths of their diet — and potatoes are just to keep poor peasants from starving. So to Chinese, most of whom envisage the United States as the land of plenty, it is only natural to ask why Americans eat potatoes at all.

"Well," the student said, digesting a long explanation about different tastes, cultures and climates, "just how much is your rice ration in the United States? Or is it a potato ration?"

No Potato Ministry

The idea that rice and potatoes are not rationed in the United States is difficult to accept, for in China the distribution of all important commodities is controlled by the government.

"But how can you be sure there will be

enough potatoes for everyone?" the 22-year-old student asked.

Again he found it difficult to understand that there is no potato ministry in the United States and that, for the most part, American farmers grow what they want to grow.

"I guess that America is not very much like China," the student finally concluded.

Differences in Regulation

With their desire to develop and modernize the country, Chinese are more than simply curious as they compare themselves and the way they live and work with Americans, Europeans and Japanese. Xenophobia still runs deep in China, but there is increasing realization that the country will have to learn from foreigners if it is to advance.

A senior police officer in Shanghai asked how the household registration system works in the United States. In China, this *hukou* system is used to keep track of the country's 1 billion people, record their births, marriages and deaths, limit their migration and enforce countless regulations.

The officer found it difficult to believe that there is relatively little personal regula-

tion of Americans' lives — and that many complain about even that.

"If we contented ourselves with simply keeping vital statistics and issuing drivers' licenses and such, we would lose control," he said. "I don't mean political control, but social control. And in a city of 11 million like Shanghai this would bring chaos."

The mobility of Americans surprises, even mechanics, Chinese, for when the Chinese move it is likely that they have been moved by the government.

Freedom to Move

Told that the average American family moves every four or five years, a 34-year-old mechanical engineer here in Chengdu asked: "Why does the government do that? Doesn't it make people angry?"

Familiar only with China's system of state-assigned jobs and housing, he found it difficult to understand how Americans move from job to job or buy larger homes as their families grow.

"Until my father moved to the city in 1943, during the war, my family had lived in the same village for at least 30 generations,"

the engineer said. "Even now I consider that my native place although I am city-born."

Jon Ritter, an American who taught for more than two years in the provincial city of Hefei, said his students had difficulty grasping the idea that the United States was settled by colonists and understanding the impact of such pioneering on the American mind.

Frontier Mentality

"For people who have lived in a single place for all of recorded history, it is very difficult to understand the mentality of another people who came and kept pushing the frontier back," Mr. Ritter observed.

A passing reference to the American Revolution during a recent coffee shop talk with youths in the resort city of Hangzhou led to a prolonged discussion of its causes and historical impact.

"I had always considered the Russian Revolution the world's first and ours the second," a 24-year-old librarian said. "Of course, I had read of the French Revolution, but it seemed so, well, distant. It really is a surprise to me to learn that the American

Revolution came earlier and was against British imperialism."

European teachers here say that Chinese are equally mystified by the process of modern European development.

"Everything before Marx is obscure," said Joan Davidson, a British lecturer for the last three years at several provincial Chinese universities. "When they talk about imperialism or colonialism, there is no idea what really lay behind them."

"How large is the daily rice ration?" is an almost inevitable question for Westerners. Another is why blue jeans are so fashionable, particularly as Chinese are trying to shed their baggy blue clothes.

How do students get into college? Who pays? How do they find jobs afterward? Who takes care of the elderly? Do people really die for lack of medical care in the West? How many hours a week do you work? How much are you paid? How high are your taxes?

How great is racial oppression in the United States? Is America really run by Jews? How great is unemployment, how high is the

rate of inflation? Why is all American art abstract, all music rock 'n' roll, and why are all movies pornographic?

'Like a Pin Cushion'

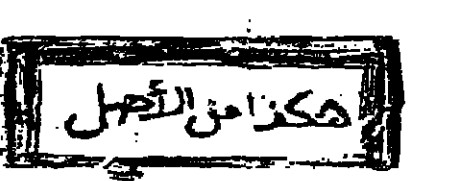
"I have been asked so many questions I feel a bit like a pin cushion," Mildred Eisler, 62, a tourist from Phoenix, Ariz., said here at the end of a three-week tour.

"At first, I was frightened by how little they knew of the West," Miss Eisler, a retired high school teacher, said, "but then I realized how little the average American knows of China. . . . Some of the questions were naive, some bizarre, some just unreal, but most were motivated by a desire to learn about us and, I think, from us."

"Our press has had difficulty getting away from the stereotypes of the West," said a Canon newspaper editor, "just as your press has had with China, and people as a result are uncertain about what is true and not true, what is good and bad."

"This makes it hard for them to form judgments and hard for us to carry out the country's modernization. . . . It is good, I think, that people are asking questions."

Compiled From Agency Dispatches



U.S. Considers Plan to Involve Foreigners in Test of Nuclear Reprocessing Plant

By Milton R. Benjamin

Washington Post Service

WASHINGTON — The Reagan administration is considering a proposal to let Japan and West Germany finance and participate in a full-scale test of a South Carolina nuclear fuel reprocessing plant that is capable of producing plutonium usable in weapons, the Energy Department has confirmed.

The proposed "cold test" of the Barnwell reprocessing plant — which would begin in late September and run for about 10 days — would not involve any fission products, but would demonstrate how safeguards at the plant would function if it were turning out plutonium that could be used in the manufacture of nuclear bombs.

The plant's owner, Allied General Services Inc. — a consortium made up of Allied Chemical Corp., Gulf Oil Corp. and Royal Dutch

Shell — also has been soliciting British and French involvement in a test of its idle \$300-million facility.

But only Japan and West Germany expressed sufficient interest in putting up money for the \$1.5-billion test. They are included in Allied General's application to the Energy Department for permission to let foreign scientists and engineers observe a demonstration involving a "sensitive nuclear technology" that the United States has previously not shared with other countries.

The reprocessing plant, which needs an estimated \$400 million in related facilities to go into full operation, has been in limbo since 1977 when President Jimmy Carter, concerned about the risk of nuclear proliferation, ordered an "indefinite deferral" of commercial reprocessing in the United States.

The Reagan administration has been seek-

ing to revive the plant, and the Energy Department recently prepared for the White House a recommendation that the government underwrite the plant by agreeing to purchase its output of plutonium and by promising to buy out investors if U.S. policy changes again in the future.

The proposal, however, has run into stiff opposition in Congress, and a Congressional Research Service study sent to the House Energy and Commerce Committee on Friday sharply criticized the recommendation for not fully addressing the implications of "domestic and world use of plutonium as a nuclear fuel" in terms of "the possible future spread of nuclear weapons."

The information contained in the proposal "is inadequate for a top-level decision on a national policy of this import," the study said. The study also noted that the administration

plan envisions foreign investment in Barnwell — most likely by West Germany — and criticized the Energy Department report for being "silent on the access of foreign investors to the Barnwell reprocessing technology."

Congressman's Reservations

Rep. Richard L. Ottinger, a New York Democrat and chairman of a House energy subcommittee, raised the question of protecting sensitive nuclear technology Friday and called for an investigation of whether foreign participation in tests at Barnwell would "circumvent the Atomic Energy Act."

"These tests may well transfer sensitive reprocessing and safeguards information not now available to Japan and West Germany," Rep. Ottinger said. "This is yet another example of the Reagan administration's willingness to jeopardize our security by allowing the

spread of dangerous nuclear technology for the benefit of a few special interests."

James Buckham, president of Allied General, said the consortium that owns Barnwell expected government approval of foreign participation in the safeguards test "shortly."

Mr. Buckham said that permitting the Japanese to observe the safeguards system at Barnwell would not enable them to acquire any technology they do not already have in reprocessing. A number of U.S. nonproliferation experts, however, disagree and suggest that a Japanese scientific and engineering team could probably learn everything there was to know about Barnwell through watching it operate for 10 days.

Lasers Exported

WASHINGTON (NYT) — Administration

officials have announced that research lasers have been exported to West Germany and France but said that the equipment would not help either country produce material for nuclear bombs.

In separate statements, the departments of State and Energy said that tunable diode lasers for research had been exported since 1977 to Britain, France and West Germany by both the Carter and Reagan administrations and that the shipments represented no change in policy.

Officials were responding to a report last week that the Energy Department had secretly approved the export of laser systems that could make it cheaper and simpler for those countries to produce uranium and plutonium for atomic weapons. The State Department called the report "misleading and inaccurate."

Study Urges Pullout Of Most U.S. Soldiers In Europe, S. Korea

By Richard Halloran

New York Times Service

WASHINGTON — A new study published by the Institute of Foreign Policy Analysis here advocates withdrawing most U.S. ground forces from Europe and South Korea and relying more on sea power to defend American interests abroad.

The study, which reflects a spreading sentiment in Congress in favor of reducing American forces in Europe and Asia and making Europeans and Asians assume responsibility for most of their own conventional defense.

That sentiment, according to congressional officials, is expected to become stronger this year and next as more demands for restraint on military spending are heard in an effort to cut the federal deficit.

"The time has come for the United States to begin withdrawing most of its ground forces from Europe and Asia," the study says. "The Japanese, no less than the West Europeans, should be expected to assume primary responsibility for protecting themselves from the regional threats posed by the Soviet Union as well as those presented by others," it said.

Japan announced Friday that it would increase its military budget by 7.34 percent for the fiscal year beginning next April 1.

The study also recommends that the United States modernize South Korean forces, then withdraw American troops.

The two-part study, "U.S. Strategy at the Crossroads," was written by Jeffrey R. Renshaw, a leading military analyst and consultant to the Senate Armed Services Committee, and Robert J. Hanks, a retired rear admiral and a political-military analyst. The Institute of Foreign Policy Research is a public group not identified with any political faction.

The Pentagon says that 40 to 60 percent of the military budget, which is estimated at \$215 billion for 1983, is committed to the North Atlantic Treaty Organization,

and that it would cost \$17 billion over five years to bring the troops back to the United States.

Sen. Theodore F. Stevens, Republican of Alaska and chairman of the Appropriations subcommittee on defense, says that U.S. military commitments to NATO will cost \$133 billion in the fiscal year starting Oct. 1.

The United States has 337,300 military men and women in Europe, of whom 220,000 are Army and Marine Corps troops. In South Korea there are 38,200 American troops, of whom 28,500 are ground troops. In both places, the rest are Air Force and Navy personnel, as are all the American forces in Japan.

In the study, Mr. Renshaw asserts that two events dictate "a revolution in America's strategic outlook." One, he says, is "the steady, and apparently irreversible disintegration of the North Atlantic Treaty Organization as an instrument capable of mounting an adequate collective forward defense of Western Europe." The second, he says, is "the emergence of a host of new threats to vital United States security interests in Southwest Asia and in other areas outside Europe where the United States does not enjoy politically secure military access ashore."

The study asserts that "Key European allies — notably Germany and the Low Countries, where most U.S. forces in Europe are stationed — are failing to do their part for the common defense."

Adm. Hanks, acknowledging that the conquest of Western Europe by the Soviet Union would be a "severe blow to the United States," says, "Still, there is one solid truth from which Europeans cannot escape: For the United States, such an admittedly catastrophic development would not necessarily be fatal; for the nations of Western Europe, it most assuredly would be."

The study says that Army units should be brought home and most of them demobilized, and that the savings should be invested in making the Navy larger and the Army and Marine Corps more mobile.



MOOSE CALL — A U.S. Coast Guard boat is pulled by a 800-pound calf moose in Lake Superior. The Coast Guard was called out for fear that the animal, which had been tranquilized after running through part of Duluth, Minn., might drown in the lake.

Collapse of International Consensus Marked UN Disarmament Session

By Michael J. Berlin

Washington Post Service

UNITED NATIONS, N.Y. — A special General Assembly conference designed to rein in the nuclear arms race has ended after five weeks with little to show for the effort.

The outcome was anticipated by most diplomats, and some observers saw it as typical of United Nations forums — a vague blueprint for inaction, papering over the failure of consensus.

Yet many diplomats saw this failure as more damaging than most, dramatizing the collapse of an international consensus on the theoretical goals of arms control that had existed for more than a decade and that had been defined by the "action program" adopted by the General Assembly's first disarmament session, in 1978.

Disarmament Goals

In the interim the program had produced no action, which was one reason the second special disarmament session was convened on June 7.

Arms control activists, led by Mexican Ambassador Alfonso Garcia Robles, had hoped the new session, which ended Saturday, would promulgate a "comprehensive program of disarmament" defining a series of target dates for a comprehensive nuclear test ban, limits on nuclear arms production and deployment, the reduction of stockpiles, and a treaty banning the production of chemical weapons, among other prime arms issues.

In the past, despite the reluctance of the nuclear powers to be pressed on these issues in multilateral forums, there had been an activist and cohesive group of "middle powers" from the West and the Third World determined to elicit either grudging acquiescence or acute embarrassment.

This year, at a time when public awareness of the dangers of the nuclear arms race is far more intense, that core of activist governments has dissipated and Third World nations have fractured along East-West lines rather than press equally hard on Washington and Moscow for compliance with disarmament goals.

The conference organizers claim some success in public consciousness-raising, pointing to a rally that attracted an estimated 750,000 people to New York's Central Park on the first Saturday of the session.

There was also intense press coverage of the speeches by governmental leaders such as President Reagan, Foreign Minister Andrei A. Gromyko of the Soviet Union, Chancellor Helmut Schmidt of West Germany, Prime Minister Margaret Thatcher of Britain and Prime Minister Menachem Begin of Israel.

Most of the speeches, however, restated disarmament formulas, without fresh ideas or follow-up.

After the leaders left, the diplomats broke into working groups, where the specifics of the comprehensive disarmament timetable founded in the face of objections from both East and West.

The only tangible result was the creation of a "world disarmament campaign" — an institutionalization by the United Nations of the drive to promote public awareness and concern about the arms race.

Secretary-General Javier Perez de Cuellar had opened the conclave by pointing to the growing public awareness as "an encouraging phenomenon." But he warned as well that "if we fail to rise to it, if we continue to temporize, there will be a massive disillusionment about the credibility of the professed allegiance of governments to the aims of peace and progress around the globe."

Although the outcome surprised few diplomats, it outraged the activists from some 500 nongovernmental organizations.

Some 76 of them issued a joint statement expressing "our sense of outrage" at the "obvious failure of this session," and called it "a betrayal of public confidence."

It has been proved countless times in the past that an agreement in the hands of the superpowers is merely a scrap of paper, the English-language China Daily said Saturday.

The China Daily, which is affiliated with the Communist Party newspaper People's Daily, said the two nations were forced into the talks by circumstances and political necessity rather than having a sincere desire to reduce armaments.

It said Washington was under pressure from its European allies and the growing U.S. anti-nuclear movement, and Moscow seeks to offset U.S. plans to deploy new missiles in Europe and to legalize its deployment of 300 SS-20 intermediate-range missiles.

NEWS ANALYSIS

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China Derides START

PEKING (AP) — An official Chinese newspaper has questioned the value of any agreement that might be reached between the United States and the Soviet Union in their Strategic Arms Reduction Talks.

8 Die in Arkansas Collision

LAKE VIEW, Ark. — A train slammed into a car Friday at an unmarked railroad crossing in eastern Arkansas, killing eight persons, police said.

VOA Director Pledges Increase in Editorials

By Jonathan Friendly

New York Times Service

NEW YORK — The director of the Voice of America has said that he will broadcast more editorial opinion and that he is creating a position of chief editorial writer.

The director, John R. Hughes, who was in New York Tuesday to mark the opening of a new studio for the government radio service, also said it has started broadcasting in its 40th and 41st languages — Pashto to Afghanistan and Azerbaijani to the Soviet Union, Iran and Turkey. The Pashto service is particularly timely, he said, because the Soviet thrust into Afghanistan has increased the need to send outside news to that country.

The mission and operations of the Voice of America have been debated for over a year. Conservative Republicans, including close advisers to President Reagan, have contended that it failed in present government policy vigorously, particularly in its broadcasting to the Soviet Union and other East European countries. Liberal Democrats and some of the agency's staff, on the other hand, have argued that increasing its propaganda role would jeopardize

the radio's reputation for even-handed presentation of the news.

The president's first director of the agency, James B. Conkling, was caught up in the debate and resigned in March, saying that he could not apply his experience as a businessman to solving the problems of a governmental entity.

Plans for Agency

Mr. Hughes, a former editor of The Christian Science Monitor, was confirmed by the Senate July 1. In an interview, he discussed some of his plans and the some of the issues affecting the agency, which spends \$110 million a year and broadcasts 950 hours of programming a week.

Mr. Hughes worked in the programming section of the International Communication Agency, of which the Voice of America is a part, before taking on his present job. The head of the former agency, Charles Z. Wick, is among those who advocate a strong editorial response to Soviet propaganda, and Mr. Hughes was active in several such projects.

He said the time the Voice of America had devoted to editorials, as opposed to news and analysis, diminished under previous administrations, reflecting a foreign policy that "was not provocative but not assertive." But he said that the agency's mandate includes articulating the viewpoint of the government and that he expects the new chief editorial writer to produce at least one editorial a day.

He said he had chosen Seth Cropsey, a former reporter for Fortune magazine, for the position because he is intimately familiar with administration thinking and can present it clearly.

Editorials will be clearly labeled as such, Mr. Hughes said. He said they will have no more effect on the credibility of the news broadcasts than an editorial page of a newspaper has on the news columns.

China and the Third World countries of Asia, Africa and Latin America are of growing importance to the agency, he said, but the Warsaw Pact countries of Eastern Europe are still the primary audience. He said he had named an advisory panel, including the Soviet cellist Mstislav Rostropovich and other émigrés, to suggest ways of improving broadcasts to the Soviet Union and its allies.

Malaysia Minister Held in Slaying of Parliamentarian

By Jonathan Friendly

New York Times Service

KUALA LUMPUR, Malaysia — A Malaysian minister has been arrested in connection with the killing of a prominent politician eight days before Malaysia's general elections on April 22, the prime minister's office said.

A statement Saturday said that Datuk Mokhtar Hashim, 40, minister of culture, youth and sports, and four other persons were to be charged in court later in the day.

Mr. Datuk Mokhtar was to be charged under Section 302 of Malaysia's penal code, the statement added. The section deals with premeditated murder and carries a mandatory death penalty.

The dead politician, Datuk Mohammed Taha Talib, 55, speaker of the assembly in his home state of Negri Sembilan, was found dying of gunshot wounds outside his home in a village about 65 miles (about 100 kilometers) from Kuala Lumpur on April 14.

Mr. Datuk Mokhtar was promoted to full minister in 1980 after holding several deputy ministerial portfolios including defense and foreign affairs. He was reappointed to his current position after the April general election. He is also deputy leader of the main political party, the United Malay National Organization.

There was also intense press coverage of the speeches by governmental leaders such as President Reagan, Foreign Minister Andrei A. Gromyko of the Soviet Union, Chancellor Helmut Schmidt of West Germany, Prime Minister Margaret Thatcher of Britain and Prime Minister Menachem Begin of Israel.

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Ukrainian Jailed On Slander Charge

By Jonathan Friendly

New York Times Service

MOSCOW — A Pentecostalist from Kharkov in the Ukraine has been jailed on charges of anti-Soviet slander because of a letter that his family wrote to President Ronald L. Brezhnev, according to a statement from his family.

Alexei V. Roshupkin, 56, a father of seven, was arrested Feb. 16 and is being held in isolation in a jail in the Ukrainian city of Donetsk, the family said in the statement, which reached Moscow on Saturday. Two relatives, who were allowed to visit him May 31, said his health had deteriorated dangerously and he had complained of chest pains.

The family was told the charge involved a letter sent to Mr. Brezhnev that referred to "discrimination, repression and slavery" of religious believers in the Soviet Union. The family applied to emigrate in January 1978. They received no answer to the request.

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U.S. Will Investigate Drug Use in Congress

By Walter Pincus

Washington Post Service

WASHINGTON — Federal prosecutors have decided to break a longstanding policy by investigating members of Congress alleged to be cocaine users in an investigation of a drug distribution network in the Capitol, a well-placed source has said.

The source, a federal law enforcement official familiar with the investigation, said Saturday that Justice Department officials have told the U.S. attorney's office that because congressmen are public officials, prosecutors must pursue the allegations. Possession of cocaine is a federal crime, but federal prosecutors usually concentrate on drug dealers, not users, according to law enforcement officials.

The source said the allegations involving the congressmen remain unsubstantiated. "I don't know where we're going to get the proof at this point. We certainly can't have an undercover operation," especially since the investigation has been widely publicized, the official said.

The source believes that Justice Department officials were concerned with the appearance that would be created by not investigating the congressmen, "even though it is clearly not ordinary" to pursue users.

Drug Ring Probe

The federal grand jury investigating the drug ring had been concentrating on suspected ring members and Capitol Hill aides allegedly used to deliver the drugs to government offices.

Rep. Robert K. Dornan, Republican of California, who called last week for prosecutors to investigate the congressmen, said Friday that he was pleased with the decision.

Rep. Dornan, a member of the House Select Committee on Nar-

cotics Abuse and Control, had argued that congressmen must be held accountable for using cocaine because they pass the laws that determine the legal status of such drugs.

Last year, Rep. Dornan permitted an undercover Washington police detective to pose as one of his aides, and sources said that information developed by the investigator was turned over to a joint federal and police task force that arrested three alleged members of the cocaine ring in April.

Three Sources

Rep. Dornan said Saturday that Washington police detectives involved in the probe had told him that the investigation has turned up the names of one senator, six House members and two former House members as cocaine users. He quoted investigators as saying that three separate sources had implicated each.

Last week, Rep. Dornan requested a separate investigation by the narcotics committee, but he said Saturday that he no longer sees a need for such an inquiry, although he wants the panel to hold hearings on possible congressional drug use.

The cocaine investigation is separate from investigations being conducted by the Justice Department and the House ethics committee into allegations that some congressmen solicited and had sex with teen-age congressional pages.

Last week, Leroy Williams Jr., 18, a former page who is the primary source of the allegations, failed a lie-detector test administered by the FBI when he was asked about sexual relations with congressmen, according to Mr. Williams' lawyer and an FBI official.

He had told the FBI that he had had sexual relations with three



Leroy Williams Jr., a former congressional page, after a meeting with members of the U.S. House ethics committee.

congressmen and that he had arranged for a senator and a congressional aide to have sex with prostitutes.

Two of the congressmen, the senator and the aide have told the Washington Post that the allegations are untrue. The third congressman has not been reached for comment.

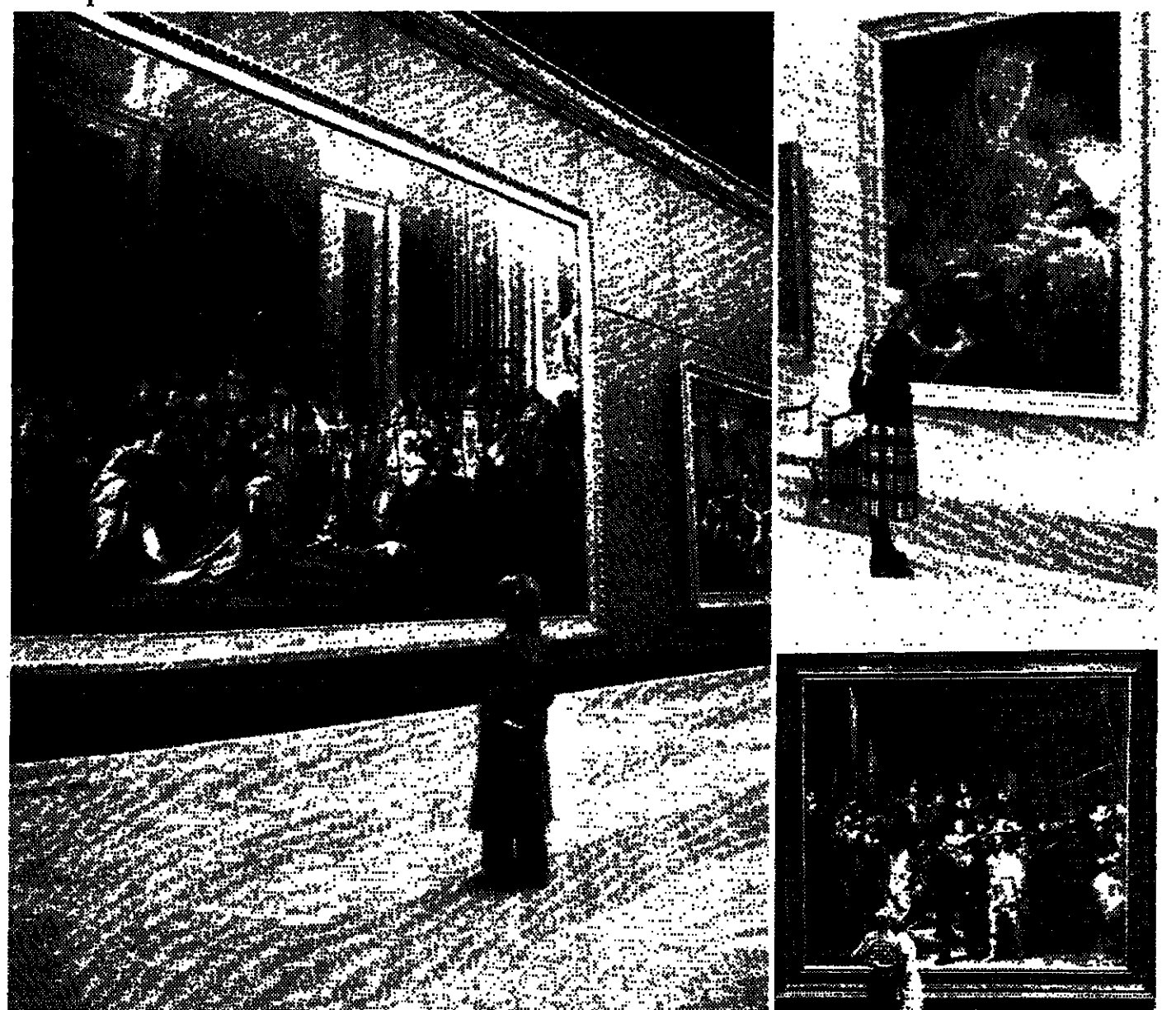
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Palestinian Prospects

From Defeat to Recognition?

From THE WASHINGTON POST:

Is a grand irony now taking place in the Middle East? Israel invaded Lebanon not simply to crush the PLO as a military force but to put it out of business as a political force, the better for Israel then to impose its own cramped brand of autonomy in the West Bank and Gaza. But unexpected turns in the war may be setting the stage for a resurgence of the PLO as a political force, in ways confounding Israeli war plans and offering vistas that no one else had imagined.

The most obvious evidence of the PLO's new lease on political life is its participation in the Beirut talks with the governments of Lebanon, the United States and Israel. These talks concern not just lifting the siege of the city but determining — that is, ensuring — the PLO's organizational continuity. It was not possible for the Americans and Israelis to have a voice in working out the first task without lending legitimacy to the second. No less than the Lebanese, however, Americans and Israelis have accepted the PLO as a working partner in their mind-boggling common enterprise. Who would be surprised to learn down the road that American, and perhaps even Israeli, negotiators saw their Palestinian counterparts coming or going?

In Washington, the war has freshened the sense that the Palestinian question is central in the Middle East and that the PLO unquestionably represents the Palestinian people. Already the question has arisen of whether the United States is slipping off its long-standing pledge not to "recognize or negoti-

ate with" the PLO unless it accepts Israel first. The policy does not appear to have changed, although certainly it should if PLO evolution makes it possible.

In any event, the policy has been shown not to stand in the way of exchanges of the sort now being conducted in Beirut. The connection, although indirect, is open, and through it the United States is taking a leading role in ensuring that if all goes reasonably well the PLO will emerge unbowed though bloodied from the war, and that its political identity will be preserved. In public words, furthermore, President Reagan, while disavowing the "armed PLO," is plainly trying to draw the political side of the PLO into concession that would permit both direct American dealing and PLO participation in the Camp David procedures.

In this regard, the PLO's reaction to the prospect that American forces might be sent briefly to Beirut to help cover its departure is interesting. The symbolism of rescue by a force identified in PLO propaganda as Israel's patron is offensive to Yasser Arafat, but he understands well the practical value of rescue and he has shown himself alert to the possibilities of using the operation as a key to broader, more overtly political dealings with the United States.

Many people are still saying — and therefore in a sense anticipating and condoning — that the PLO's only post-Lebanon option is further terror. But that outcome is not fated. The blessings of the peacemaker will fall on politicians who hold open another choice.

A Letter Reagan Should Write

From THE NEW YORK TIMES:

Dear Menachem: As I consider our joint predicament, and opportunity, in the Middle East, it occurs to me that the warmth of our meetings always seems to prevent clear discussion of cold realities. So instead of inviting you back to the White House soon, let me set down plainly the policies I will now pursue.

Against my insistent counsel, you have plunged deep into Lebanon much deeper than your immediate security required. The loss of life has been terrible. So is the loss of American credibility, in Israel as well as Arab eyes. I aim to restore it by making clear our respect for legitimate Arab interests and our sense of responsibility for Israel's actions.

I do not deny that your strike north opened some promising political paths. The PLO is isolated and disarmed. Your brilliant aerial defeat of Syria nullified Soviet power in the region. With the simultaneous collapse of Iraq in Iran, our friends in Egypt, Saudi Arabia and other moderate states gained new reason to cooperate, among themselves and with America. That is why we have stood by you in this excessive venture. But opportunities are a boon only if seized.

By the time you read this, we may have achieved the first of many disengagements to move you, Arafat and the Syrians out of Lebanon. But this Beirut end-game is trivial. I will not let American energies be ensnared by the feudal, probably irreparable divisions of Lebanese society. If its leaders will not join to save their nationhood, they will just have to fight it out. Americans will not be the permanent policemen, and neither will Israelis who use American weapons.

Having removed the PLO's military threat, you have no further need to meddle in Lebanon. Your security interests reach, at most, 25 miles north; the final Israeli withdrawal from that line should depend on guarantees for your frontier, and nothing else.

Drug Abuse in Sport

From THE WASHINGTON POST:

America's warrior heroes, the handsomely paid athletes of big league sports, had better clean up their act. Again, this time after a grim account of drug abuse by defensive lineman Don Reese in Sports Illustrated, there is widespread concern about the influence of drugs and those who push them in the locker rooms of the pros. Even leaving aside the obviously strong feelings of Mr. Reese about the subject, and about the National Football League, every major sports league has been embarrassed by addict-athletes.

The extent of drug abuse in the pros is not clear, but the impact on professional sports is. It is threatening whatever credibility they still enjoy. Even assuming that drugs are no more prevalent among athletes than in any other occupational group, every story of a fallen idol is damaging to the young who look to these players as role models.

Were it not for this influence of sports on youth — which, like it or not, is here to stay — there might be little reason to care what these grown men do to themselves. If they

can't perform, that's tough; it's private industry. And the presumed majority of today's professional athletes who do not use drugs can choose simply to ignore the habits of their addicted or dealing teammates.

But they do so at their peril, not only because this ignores the damage done to the reputation of the pros, but also because it encourages a criminal element to influence personal performances and team results.

There is an effective method of dealing with major league drug abuse: urinalysis. But no, say most of the players and their unions, this would be an assumption of guilt, an invasion of privacy and a change in working conditions not included in union contracts.

Some constructive steps have been taken by the leagues, team owners and players to treat drug addiction as a health problem and to emphasize help rather than punishment. And ultimately the decision to use drugs or quit rests with each player. But if drug abuse is to be addressed as a genuine health problem, all players should accept independent, confidential testing as normal procedure.

Your friend,
Ron.

Counting On Mr. Shultz

By James Reston

WASHINGTON — George Shultz will be the sixth U.S. secretary of state in 10 years. (The Soviet Union has had only one in the last 25 years.) Shultz will soon be confirmed during another Middle East conflict and an East-West crisis over trade and nuclear arms control, and at the beginning of a national congressional election, but he will be welcomed by Congress, the allies and the Soviets for a variety of reasons.

For there is general agreement, both at home and abroad, and even within the Reagan camp, that the conduct of American foreign policy under the Reagan-Haig-Clark-Weinberger team was full of personal tension and policy disputes and needed a good steady relief pitcher at state for the last innings of the Reagan administration.

George Shultz may add a sense of history and even a sense of humor to the Reagan administration, both badly needed. Unlike Henry Kissinger, he brings no enemies to the job. Nobody is mad at him. Unlike Al Haig, he talks softly in plain language and is beyond political ambition.

More important, as a trained economist and former head of the budget, labor and treasury departments, he knows the vital influence of economic and financial policy on foreign affairs, and doubts the value of trade sanctions as a club to influence the policies of other countries.

This may foreshadow some conflict for Shultz with the right wing of the Republican Party and even with influential members of the Reagan Cabinet, who believe that "the clear and present danger" to the republic is the military buildup of the Soviet Union, rather than the disarray of the free world's economy, with its alarming unemployment and interest rates.

No doubt the Senate will want to question Shultz about what he thinks of President Reagan's decisions to order American companies or their European licensees not to provide modern technology for the Soviet Union's gas pipe-

line to Western Europe, and about whether this is legal or helpful to U.S. relations with the European allies or Moscow. And also whether it is in America's national interest to provide modern military weapons to Taiwan at the risk of harming trade and political relations with the Chinese Communist government in Peking.

All this will not be easy for Shultz, who will have to "understand" what the Reagan administration has done in El Salvador, on the pipeline in Lebanon, on the PLO, on Israel's policies in the West Bank and Gaza and on Menachem Begin's invasion of Beirut, without insisting that he would support such policies in the future.

The Senate will undoubtedly be sympathetic to Shultz's dilemma and confirm him in a hurry, for few observers have much confidence in the way foreign policy has been defined or administered by the Reagan team in Washington. Many in both parties would welcome any change, particularly with the help of a man who has the confidence of the White House, who has confidence in the Foreign Service (which is probably the best in the world) and who has been holding things together while Reagan is trying to sort things out.

The question is whether the White House team will give Shultz the authority, which they depicted Alexander Haig, to formulate and administer foreign policy in the long-range interests of America; or whether the foreign policy amateurs in the White House will second-guess him for short-term political, ideological or personal reasons.

This we don't know. We don't even know whether Shultz asked for the ground rules before he took the job. Probably not, for that is not his style. But once he is confirmed and the November election is over, Reagan will probably have his summit meeting with President Brezhnev. There then may be a year for Shultz to influence foreign policy before the 1984 presidential election struggle starts at the beginning of 1983.



Shultz will have some trouble with the supporters of Israel, who wonder about his Bechtel commercial connections with Saudi Arabia. "If I have any difference with Reagan," Shultz said in an interview in 1980, "it's about Middle East policy." However, most people who have known him well over the years count on his character and not his connections. Otherwise Shultz would undoubtedly have stayed home.

"I met no one in public life," former Secretary of State Henry Kissinger wrote about Shultz in "Years of Upheaval" "for whom I developed greater respect and affection. If I could choose one American to whom I would entrust the nation's fate in a crisis it would be George Shultz."

Of course, excluding himself, Kissinger was Ronald Reagan would get into serious trouble in the world, which he did, and that maybe Reagan would call on him to repair the damage, which Reagan didn't. Failing that, the president's choice of George Shultz is regarded by most everybody else as a good choice in a bad situation.

The New York Times.

When All Seems to Conspire to End the World

By Victor Perera

SANTA CRUZ, Calif. — I read the

second of Jonathan Schell's New Yorker essays on the prospects of nuclear holocaust while sitting in the palm-thatched Lacandon "god-house" of Naha, about 65 miles southwest of Palenque in the heart of southern Mexico's rain forest. It was an appropriate experience, since for the surviving 150 or so traditional Lacandon Mayas, the threat of extinction is nothing new.

Several years ago when the Mexican Department of Forestry built logging roads through the Lacandones' 3,000-square-mile preserve and felled 400 giant mahogany trees in the vicinity of Naha, the world to all intents and purposes ended for the *hach winik*, or "true people," as the Lacandones call themselves.

Mahogany is the linchpin that holds together the fragile rain-forest ecology. They also provide the Lacandones the material for their dugout canoes, their furniture, the poles of their houses and many useful and ceremonial artifacts. The logging of these 400 centennial giants, some of them as tall as 300 feet, doomed Lacandon culture as surely as the extermination of the vast herds of bison doomed Plains Indian culture in the United States in the 19th century.

Old Chan K'in, the octogenarian *to'ohil*, or religious and civic authority of Naha, maintains that without mahogany "a forest dries up and degenerates into a dead, tangled underbrush in which only the poisonous snakes can thrive." And without their tradition, he says, "the *hach winik* degenerate into drunks, liars and thieves, no different from the men who burn and despoil our forest."

Chan K'in believes, as his Mayan forebears did, that the world is subject to continuous cycles of death and renewal. After every large calamity, the Lacandones traditionally discard their old gods, embodied in more than a dozen individualized clay incense burners, and make new ones, in a ceremony that lasts weeks and involves a strict regimen of fasting. The incense-burner renewal has not been held for 12 years, and it is not clear when Chan K'in will call for a new one. The incense-burners now in the god-house are brimming with the ash of thousands of unanswered prayers.

Chan K'in predicts that the *xi'tan*, or

end of the world, is now close at hand, because there is too much cold and it is making its way into the roots of all living things — plants and animals as well as people — so that all wish to die. He firmly believes that the instruction to bring about the world's end is inscribed in our cells, so that we all have become unwitting or purposeful agents of the *xi'tan*.

Evidence for this prophecy is all around him, in the havoc wreaked on his forest community by the depredations of chicle gatherers, missionaries and loggers, and more recently by oil drillers and package tours. The process of cultural disintegration in Naha is well advanced.

A year after the felling of the trees, Chan K'in's oldest son, who is the community's president, bought two trucks with the mahogany revenue and opened a store, which he stocked with Cheetos, Raisinets and Nescafe.

According to a divination Chan K'in cast years ago, the *xi'tan* would arrive around 2008, and we would see

a preview — a *chichin xi'tan*, or "little world's end" — in 1982.

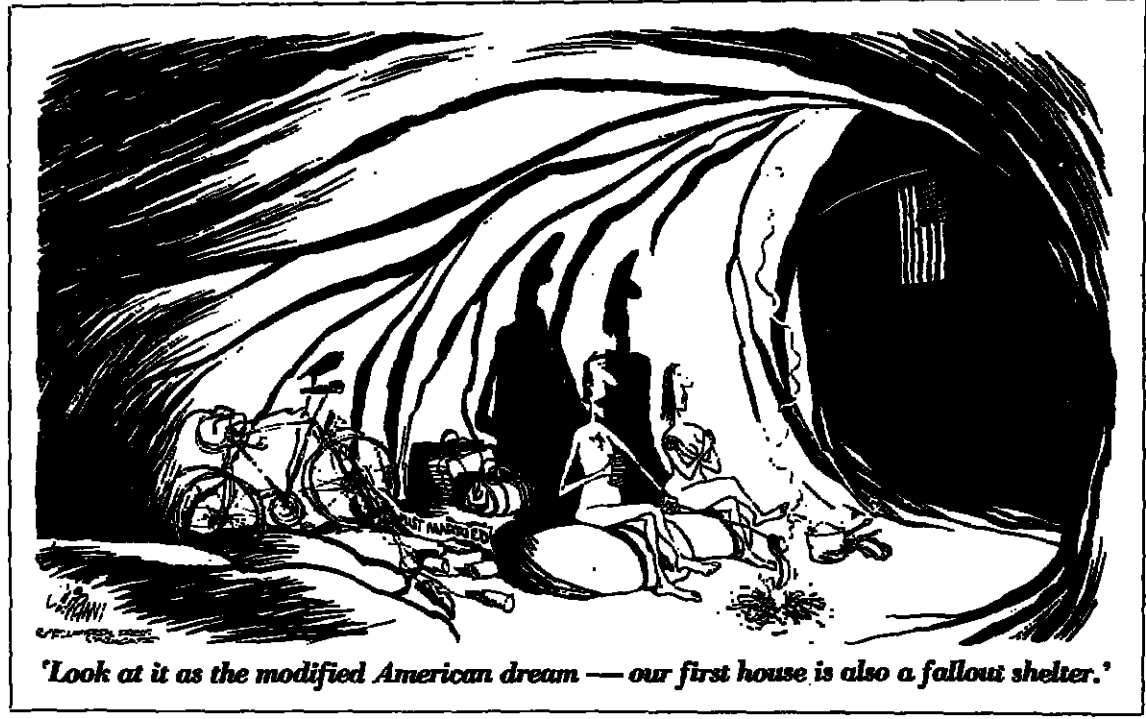
At the time Chan K'in made his prediction, before the arrival of the loggers and the planeboards of French and West German tourists, the Lacandon universe did not extend very far outside the boundaries of their forest. In Chan K'in's recent stories, however, *Akyath*, the god of the foreigners, has assumed a disproportionate role, and his power has grown so that he now rivals the Lacandones' own traditional deity, *Hachak'yum*.

Lacandon oral tradition provides several different scenarios for the *xi'tan*, among them earthquake, solar eclipse and conflagration. The vision Chan K'in describes most often is a deluge out of ancient folk legend, strikingly like Genesis, during which it rains day and night for 10 years and fierce winds knock down all the forest trees. *Akyath*, the rain deity, and man's protector, gathers together all the animals and people, Lacandon and non-Lacandon, and

stows them into a huge canoe. After the rising waters cover the world, the rains cease and the boat descends slowly to dry land, in Palenque. *Akyath* then replants maize as well as the flowers and the trees whose seeds he has kept in his house; then the Lacandones begin over again by making new incense burners, praying and giving offerings to *Hachak'yum*. "And this way," Chan K'in concludes confidently, "the world will be renewed once again and our lord will once more be pleased with his creatures."

On March 28, Chichonal volcano in Pichucalco, about 150 miles from Naha, erupted for the first time in centuries. A rain of volcanic ash soon covered much of the Lacandon forest, and in Palenque there were reports of asphyxiated children. In Naha no one has died, but the confields turned a ghostly silver gray.

The writer, a University of California lecturer, is co-author (with linguist Robert D. Bruce) of "The Last Lords of Palenque: The Lacandon Mayas of Southern Mexico."



With a Soccer Ball Instead of Guns

By Flora Lewis

PARIS — One thing that makes

Americans different from practically everybody else is lack of passion for soccer, which everybody else calls football or even *futebol*. There was a lot of talk about the persuasive power of petrodollars and how the Soviets meddle among the Arabs.

That's the way it is. But the French went on to score again, beating Kuwait, 4-1. Satisfaction was gained. The outcome, if not the method, was accepted and nothing was blown up.

The match with the most sensitive implications was Poland vs. the Soviet Union, which the organizers managed to put off for a couple of rounds. But it was unavoidable, as the Poles kept finding at home. Having beaten Peru and Belgium, a match that peacefully broke up what could have turned into a violent demonstration in Poznan because everybody wanted to see the communist rating, the anniversary of the 1956 riots to watch television, Poland had to face the Soviets.

In Warsaw, people were saying there would be an invasion if the Soviets lost, and an insurrection if the Poles lost, and just more of the gloomy standoff if the teams tied. It turned out to be a nothing-to-nothing game, which is about where things still stand in Poland, but with a compensating hope. Because of previous wins, the draw advanced Poland and eliminated the Soviet team.

The Soviets had some consolation in the performance of their star from Kiev, Oleg Blokhin, who won much applause. There were reports that Moscow offered to sell him off for \$25 million. That did appear to suppress the White House arguments that I.E. Krenin is getting desperate for hard cash, but there was no need to impose yet another embargo. There were no takers at the price.

Inadvertently, the World Cup even found a way to honor losers without

imposing the humiliation that breeds a demand for revenge.

Algeria, which fielded a remarkable team cheered so ecstatically by the nation's Alsatian women shed their veils to celebrate victories in the streets of Algiers, was squeezed out of the semifinals by a dubious result between West Germany and Austria. It was a lackadaisical effort, and suspicions were widely voiced that the German-speakers had agreed on a fix. The Algerian trainer declared with both humor and dignity that he had to feel honored that two leading European teams had deigned to collaborate to eliminate Algeria.

Spain, the host country, fared poorly. Sponsors were distressed that a combination of greedy scalpers, hanky-panky (which is likely to provoke local scandals for years as details ooze out) and the Spanish team's pallid showing, which discouraged attendance, left a big deficit.

A Spanish newspaper, now that there is democracy, dared to suggest that a series of highly questionable field decisions represented an attempt to make up for the players' failings. "The referees were the Spanish team's best forwards," it said.

So the World Cup didn't interrupt the world's habits. It just provided another, unnamed arena that people could watch with unrestrained emotion, finding identity with neighbors and nations, discovering heroes and villains and waving the flag.

That way, by lone contest that deterred intruder sports, the other way around might be better, insisting that national clashes take place on the sports fields. And let the best team win, until the next match.

The New York Times.

Scorning Diplomacy

The downgrading of diplomatic expertise in the United States is probably understandable in a country so geographically isolated from foreign intervention. America's traditional indifference to life beyond its borders is reflected in the teaching of world history, contemporary geography and foreign languages, and in the consequent poor results in these fields. Yet Ronald Reagan claims leadership of the Western democracies.

BARBARA STERN, Maisons-Laffitte, France.

Opinion and the PLO

The lingering hostility of American public opinion toward the PLO reflects a long-standing bias nurtured by the American press and a powerful pro-Israel lobby. When public opinion is shaped without due consideration of justice, the resulting situation is scandalous.

That America should not recognize the Palestine Liberation Organization as the voice of a disenfranchised people borders on folly. One can ask why the United States should mingle in a Middle East peace effort when it refuses to be evenhanded.

Americans have been inculcated with a sense of responsibility toward the Jewish people after the tragedies of World War II. Yet when the vanquished become exterminators in turn, a hue and cry should be raised. Why do principled defenders of justice in the United States rest silent while Israel defiantly exterminates Palestinians with tacit American support? The use of American military hardware in Lebanon appears to have wonched few hearts across the Atlantic. Is it that injustice can be opposed only when it is too late?

Most European countries now recognize PLO diplomatic missions. It is true that the PLO has in the past re-

The Boom Fades in Australia

By John Shaw

SYDNEY — Until recently, Australians believed themselves to be living in a land of permanent prosperity. But they are now awakening to the harsh realization that their country, with its vast natural resources, is sliding into recession along with the rest of the world.

It is the global slump that is primarily responsible for Australia's growing economic problems. With their own industries in trouble, the United States, Japan and other countries have been compelled to curb investments in Australia and purchases of its raw materials.

The fading of the Australian boom is bound to affect the conservative government headed by Prime Minister Malcolm Fraser, a millionaire rancher who won re-election two years ago on the promise that he would sustain the economic surge.

His party took a beating in recent state and local contests, and Fraser could be defeated when he faces voters at the end of his term next year. But the left-of-center Labor opposition would be saddled with the same difficulties if it replaced him.

The picture of Australia as a future Eldorado was based on the expectation of limitless demand for its huge deposits of minerals, oil, coal and natural gas. Experts estimated that as much as \$80 billion might be invested by foreign corporations during the 1980s in gigantic projects designed to develop these resources. At the time of his re-election in 1980, Fraser said that \$30 billion in foreign investment was already in the pipeline.

Those numbers now look wildly optimistic. Although the country has not been reduced to poverty, formerly hopeful investors are scaling down commitments, and the growth rate has slowed as a result. Inspired by the energy crisis, for example, the Japanese in particular were attracted by Australia's oil, coal and natural gas potential, but the present glut has dampened their enthusiasm.

An ambitious oil shale program in Queensland has been abandoned, as have schemes to promote coal liquefaction and other synthetic fuels.

With factories closing in the United States and Western Europe, demand for Australia's iron ore, aluminum and other metals has fallen sharply. Plans to build a \$600-million aluminum smelting plant in New South Wales have been canceled.

A contributing factor to the slump has been soaring interest rates, partly a consequence of President Reagan's strict monetarist policies. In Australia, as elsewhere, borrowing has simply become too expensive.

Unemployment has passed the million mark, the worst level since the 1930s. The trade deficit is enormous, with the prospect ahead of a currency devaluation. And economists forecast worse to come in the form of bankruptcies and inventory cuts.

The situation is having a singular psychological effect on Australians, as many discover that their land may not be as wealthy as they thought. Press and television commentators are starting to question whether the boom was real or was just an illusory public relations ploy.

Yet amid the disenchantment some Australians are spending more than ever. Auto sales are high, restaurants report brisk business, vacation travel abroad is up. Cartier, the Paris jeweler, has just opened a luxury boutique in Sydney, which is already overpopulated with lavish shops.

Essentially, Australia's recovery will depend not on Australia but on the ability of other industrial nations to weather the recession. Only then can they afford to import Australia's resources and revive its economy in the process. The country is still dependent on the outside world — from which, in many ways, it has so long lived in blissful isolation.

The writer, an Australian journalist, contributed this column to the International Writers Service.

LETTERS TO THE EDITOR

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The downgrading of diplomatic expertise in the United States is probably understandable in a country so geographically isolated from foreign intervention. America's traditional indifference to life beyond its borders is reflected in the teaching of world history, contemporary geography and foreign languages, and in the consequent poor results in these fields. Yet Ronald Reagan claims leadership of the Western democracies.

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Most European countries now recognize PLO diplomatic missions. It is true that the PLO has in the past re-

sorted to wanton violence. But the many murderous Israeli raids into southern Lebanon have deprived Israel of any monopoly of virtue.

Murder is murder. Who among murderers is more justified?

EDWARD ALAN YERANIAN, Paris.

Light and Darkness

Regarding "Consensus for Israel Is Cracking" (JHT, July 2): Anthony Lewis should read the editorial entitled "Judging Israel Fairly," which replied to him on the same page. How could Israel behave "as a light among nations" when it is fighting for its survival? Or would like Anthony Lewis to write on the darkness among nations — on Syria, Iraq or the Soviet Union, for instance.

ROUBEN HAIM HAWA, London.

America's Role

It is hard to take at face value President Reagan's repeated assertions that the United States government was surprised by Israel's invasion of Lebanon. It is doubly hard to accept his contention that once the invasion was under way, the United States could do nothing to control it.

Are we supposed to believe that the roughly \$2.3 billion in military and financial aid that the United States does out to Israel every year could not have been used to influence the actions of Israel?

J.M. BRADLEY, Bonn.

Letters intended for publication should be addressed to the editor and contain the writer's signature, name and address. Brief letters receive priority, and letters may be abridged. We cannot acknowledge all letters, but we value the views of the readers who submit them.

JULY 12: FROM OUR PAGES 75 AND 50 YEARS AGO

1907: Pacific Fleet Debated

NEW YORK — Editorial opinion, crystallized by developments since President Roosevelt announced that the battleship fleet would go to the Pacific, has become practically unanimously favorable to his policy, proclaiming it a proper move for the protection of the insular possessions and the Panama Canal, many declaring it should have been done long ago. Most writers regard war as impossible, except at Japan's seeking. They agree Japan would excite no international sympathy by exhibiting belligerence on such grounds. However, the world demands that the president rescind his order sending the battleships, because it will make Japan angry and precipitate a fight.

1932: Belgian Coal Strike

CHARLEROI, Belgium — With the coal mine region in a fever of excitement as a result of the last few days' rioting led by Communists, and martial law prevailing, the strikers have proclaimed a mass meeting in the place du Manège here. Nearly 50,000 workers are called to assemble. The mob of strikers have stoned police, invaded the chateau of the director of the Providence factories and burned his garage. Similar scenes of wild disorder are expected if the miners' leaders decide on the "revenge" threatened on large posters throughout the city. Recalling the unhappy days of the war, Charleroi and Mons are armed camps, with streets torn up and police barricades erected.

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هكذا من النجيب

War Still Haunts Falklands Life

Snow Covers Shell Holes as Hunt for Bombs Continues

By Mark S. Smith

The Associated Press

STANLEY, Falkland Islands —

SNOW COVERS THE FALKLAND ISLANDS

now in the Southern Hemisphere

winter, concealing the shell craters

and other scars of the battle be-

tween Britain and Argentina that

ended last month.

But reminders of the 74-day

conflict remain. Every morning,

the sun creeps over the low hills

northeast of Stanley, the islands'

apical, helicopter swarms into the

sky carrying soldiers, islanders and

supplies. From the dozen British

ships anchored in the harbor and

Port William's anchorage just to

the north.

Every evening, British Army

John Mills goes on the local

radio station to give progress re-

ports toward clearing away land-

mines and unexploded bombs.

White Tape a Warning

Chatting with Patrick Wells,

who runs the station, Col. Mills

says things such as, "We're trying

to sort that out, Pat" or "I must

urge your listeners not to cross

streets that have been roped off by

white tape."

"The town was lucky," said St-

At the Falkland Islands Co.

headquarters, manager Harry

Milne is trying to restore sheep

shearing and wool-shipping op-

erations that were hard hit by the

conflict. But his large dock facility

is also being used by the military

men to unload supplies.

"We're sharing," Mr. Milne

said. "All things considered, it is

working with fantastic good will."

"The damage from two months of

occupation by Argentine troops

who invaded on April 2, and three

weeks of fighting after British

forces landed, is remarkably light.

"Town Was Lucky"

Perhaps a dozen Stanley houses

suffered serious damage from the

bombardment that preceded the fi-

nal British assault. The police sta-

tion was also a casualty, its roof

knocked off by a British rocket.

In Goose Green settlement, the

recreation hall is in rubble from a

British Harrier plane strike. At

Ajix Bay, one of the sites of the

May 21 British landing, an old re-

frigeration plant has gaping holes

from two 1,000-pound (450-kilo-

gram) Argentine bombs.

"The town was lucky," said St-

art Wallace, an employee at the

Stanley office of Cable and Wire-

less. "I'm listening now to reports

from Lebanon. That puts things in

the correct perspective."

Argentine weapons, helmets and

ammunition that littered the road-

sides in this town of 1,000 people

have been stockpiled at a corner of

the airfield, along with wrecked

Argentine aircraft.

Stanley's population, which fell

to about 600 at the height of the

fighting, is gradually trickling back

from the outlying farms — the

"camp" in islander parlance.

Don Davidson, manager of a

Stanley waterfront guesthouse said

there are hundreds of craters on

Mount Longdon from the British

shelling of Argentine troops. "Sort

of like the dimples in thick choco-

late pudding," said Mr. Davidson,

a naturalist who used to spend

much leisure time in the hills.

British troops are gradually

being rotated home as the battle

cleanup continues and more per-

manent bases are being set up.

Islanders say there have been

some incidents of friction with the

British troops. "We have to have

patience," said Eric Goss, manager

of the settlement of Goose Green.



Stanley airport presents a snow-covered vista three weeks after fighting stopped in the Falklands.

site of one of the bloodiest battles

of the land campaign.

Today, Goose Green's residents

are outnumbered more than 3-to-1

by Nepalese Gurkha soldiers garri-

soned in farm buildings.

"We've been screaming for this

kind of protection for years," Mr.

Goss said. "Now we have it. They

will fit into this community just

fine."

The Gurkhas are treated with

little sort of veneration by the

Goose Green residents. A Gurkha

lance corporal was killed when his

shovel hit a grenade as he was fill-

ing in trenches. "We know it could

just as easily have been one of our

children," Mr. Goss said. The sol-

dier is buried at the cemetery in

nearby Darwin.

Dominican Democracy Lives On After Guzmán

United Press International

SANTO DOMINGO, Domini-

cian Republic — The suicide of

President Antonio Guzmán on

July 3, six weeks before the end of

his term, has not affected the or-

derly transition of power — a tri-

bute to democracy in a nation that

was long ruled by dictators.

"All of us panicked when we

heard the president was dead," re-

counted a young man in Mr. Guz-

mán's Dominican Revolutionary

Party. "Everyone grabbed his pis-

tol. We were sure it was a coup."

Such fears were unfounded.

There was no attempt by the mil-

itary to seize power.

The chiefs of staff pledged their

support for the constitution, and

Vice President Jacobo Majluta was

sworn in July 4 to complete Mr.

Guzmán's four-year term. Presi-

dent-elect Salvador Jorge Blanco is

to be sworn in on Aug. 16.

The Nation Stunned

"I think the days of barracks

coups are behind us," said Joaquín

Balaguer, who served four terms as

president but was defeated in the

1978 elections by Mr. Guzmán.

The nation was stunned by Mr.

Guzmán's suicide. The 71-year-old

castellan and businessman

widely respected for his defense of

civil liberties and for pardoning

some political prisoners, looked

himself in the bathroom of his of-

fice at the national palace just be-

fore midnight July 3 and shot him-

self in the head with a gold-plated

.38-caliber revolver.

Friends and party leaders say

they believe Mr. Guzmán was de-

pressed because he was soon to

leave office and because of pres-

sure from subordinates who feared

they would be caught in a govern-

ment corruption investigation

promised by President-elect Blan-

co. Mr. Guzmán had chosen not to

run again in the May elections.

"He told me he had had to fire

or demote several officials" be-

cause "he was sure they had not

lived up to their duties," said José

Francisco Peña Gómez, secretary-

general of the ruling party and a

critic of Mr. Guzmán's conserva-

tive economic policies.

His Last Day

He said Mr. Guzmán had com-

mitted suicide as "an act of su-

preme responsibility, of civic cou-

rage, of patriotic shame."

Mr. Guzmán spent his last day

at his family beach house in Juan

Dolín, 20 miles (32 kilometers)

east of Santo Domingo. That

night, he decided to return to his

office — something he rarely did

on weekends — with his son-in-

law and secretary, José María Her-

ández.

Just before midnight, he went

into the bathroom and locked him-

self in. A shot was heard. Mr. Her-

ández and Mr. Guzmán's mili-

tary bodyguards broke into the

bathroom and found Mr. Guzmán.

The bodyguards rushed him to a

military hospital, and frantic offi-

cials called the U.S. Embassy,

which lined up a jet to fly from a



Flight Lt. Jeffrey Glover, a pilot who was the only Briton captured by Argentina in the Falkland Islands war, was greeted by his wife, Dee, upon his return at London's Gatwick Airport.

U.S. Underestimating Toxic-Lead Level in Air

By Sandra Sugawara

Washington Post Service

WASHINGTON — Most air-

pollution monitors have repeatedly

underestimated levels of toxic lead

in the air, according to an internal

Environmental Protection Agency

memorandum released by an en-

vironmental group and a member of

Congress.

The memorandum, obtained un-

der a Freedom of Information Act

request and released jointly on Sat-

urday by the Natural Resources

Defense Council and Rep. Toby

Moffett, Democrat of Connecticut,

provides further ammunition to

critics of the EPA proposal to re-

strict restrictions on lead in gasoline.

The EPA memo said that the

lead level in most areas is probably

higher than tests indicate because

monitors were located too far from

roads, in areas with little traffic or

at elevations considerably higher

than ground level.

"A Strong Correlation"

It also concluded that there ap-

pears to be "a very strong correla-

tion" between the amount of lead

in gasoline and the amount of lead

in the air, something the EPA has

not publicly acknowledged.

The memo was dated Jan. 27,

1982, a month before the EPA an-

nounced that it was considering

whether to relax the lead level

standard.

EPA spokesman Byron Nelson

said: "This issue is being looked at

as part of the decision-making pro-

cess. It is only one of many issues

being looked at. The review is cur-

rently ongoing and absolutely no

decision has been made on lead."

Mr. Nelson declined further

comment on the ground that he

had not seen the memo. EPA em-

ployes involved with the issue

could not be reached.

Lead has long been known to

have adverse health effects, particu-

larly on children. But the lead in-

dustrial and some refineries have

argued that the 1979 restrictions

gradually reducing gasoline lead

levels have so improved air quality

that there are no longer health re-

asons for retaining the regulations.

They also complained that the

standards were extremely costly.

In response to industry pleas,

the Presidential Task Force on

Regulatory Relief directed the

EPA last August to relax the lead

level standard. The EPA rejected

that approach as politically sound

Provided by White Weld Securities, London, Tel.: 623 1277; a Division of Financiere Credit Suisse - First Boston

Provided by White Weld Securities, London, Tel.: 623 1277; a Division of Financiere Credit Suisse - First Boston

Amrt	Security	3MT/ Cmt	Issue Pr.	Mld Pr.	Yield
dm 100	Tennessee Inst	1	100	98	9.31
5/20	California	2	100	97	9.26
dm 100	Phillips Petroleum	1	100	97	9.20
dm 100	Phillips Petroleum	1	99 1/2	98	8.80
cm 43	American Central Mtl	1	100	94	10.75
dm 100	Wetmore Hydrn	1	99 1/4	97 3/4	8.64
dm 50	Bank of Tokyo-Mitsui	1	99 3/4	100	8.57
5/40	Yazoo Southern Fin	1	100	98	15.06
dm 100	Council of Finance	1	99 3/4	97 1/4	9.17
dm 100	Bank of Montreal	1	100	96	17.00
cm 100	Ball Canada	1	99 1/2	96	9.60
dm 100	Bankers Trust	1	99 1/2	95 1/2	8.99
5/40	California Corp	1	99	92 1/4	16.13
dm 20	Hedberg City	1	99 1/4	95 1/2	9.75
dm 100	Austrian	1	100	95	9.15
dm 50	Banker Intl Flt	1	99 1/2	94 1/4	9.34
5/50	Midland Pacific	1	99 1/4	94 1/2	15.38
5/125	Bankers Overseas	1	100	94 1/4	15.33
5/125	Bankers Overseas	1	99 5/8	96 1/2	15.85
5/100	Atlantic Richd Cof	1	100	92 1/2	14.83
5/200	Atlantic Richd Cof	1	100	91 1/4	15.46
dm 100	Bank of Montreal	1	100	95 3/4	15.44
dm 100	Bank of Montreal	1	99 3/4	96	9.25
dm 100	Bankers Trst	1	100	97	10.25
dm 100	Bankers Trst	1	99 1/2	95 1/2	14.68
5/100	Bankers Overseas	1	100	94 3/4	15.37
5/100	Bankers Overseas	1	100	96	14.80
5/100	Bankers Overseas	1	100	97 1/2	15.38
5/100	Bankers Overseas	1	100	97	14.65
5/100	Bankers Overseas	1	100	97 1/2	15.48
dm 75	Bankers Trst	1	100 1/2	96	9.89
dm 50	Bankers Trst	1	99 1/2	97 1/2	17.13

Amst	Security	%	Met	Avg Price	Av. Lot Size	Av. Cost
525	ADRIATICA					
526	Austria	51/2	Oct	92	145	148
527	Austria	51/2	Oct	92	145	148
528	Austria	51/2	Oct	92	145	148
529	Austria	51/2	Oct	92	145	148
530	Austria	51/2	Oct	92	145	148
531	Austria	51/2	Oct	92	145	148
532	Austria	51/2	Oct	92	145	148
533	Austria	51/2	Oct	92	145	148
534	Austria	51/2	Oct	92	145	148
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541	Austria	51/2	Oct	92	145	148
542	Austria	51/2	Oct	92	145	148
543	Austria	51/2	Oct	92	145	148
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592	Austria	51/2	Oct	92	145	148
593	Austria	51/2	Oct	92	145	148
594	Austria	51/2	Oct	92	145	148
595	Austria	51/2	Oct	92	145	148

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1:50	Dome Petroleum Ltd	10/1	74 Jul	52	26.25	27.25	12.5
1:50	Quebec Hydro-Elec	8/12	79 Feb	52	26.75	28.5	12.5
1:50	Erni Financial	8/12	79 Feb	52	26.75	28.5	12.5
1:50	Alcan-Alcan Al	9/14	73 Mar	49	40.14	47.4	18.8
1:50	Alcan-Alcan Bldg	9/12	76 Feb	49	40.14	47.4	18.8
1:50	Alcan-Alcan Bldg	9/12	76 Feb	49	40.14	47.4	18.8
1:50	Scorcroft	7/24	72 Oct	62	21.74	24.5	14.4
1:50	Consolidated-Southwest	3/24	72 Oct	67	15.19	16.25	10.0
1:50	Finland	8/24	73 Oct	67	15.19	16.25	10.0
1:50	Venezuela	10/1	72 Aug	67	15.19	16.25	10.0
crs 46	Hudson Bay	11/1	73 Apr	62	74.17	86.17	34.0
crs 46	Finland	14	79 Aug	58	16.24	17.5	10.0
1:50	Canada	9/12	76 Feb	49	40.14	47.4	18.8
1:50	Royal Bank of Canada	9/12	76 Feb	49	40.14	47.4	18.8

3.25	Turbo Resources P-Cv	12/1/71	Nov	22	29.54	32.85
3.25	McNary-Purston	11/1/71	Jan	34	29.54	32.85
3.50	Domie Petroleum Ltd	13/1/72	May	60	26.25	22.28
3.50	Domie Petroleum Ltd	13/1/72	May	60	26.25	22.28
3.50	Genesee	11/1/71	Oct	51	16.75	18.50
3.50	Profr Of Quebec	10/1/72	Feb	10	17.93	17.21
CN-45	Royal In	17/1/74	Oct	94	17.93	17.21
CN-45	Asstran Capital Bk	16/1/74	Apr	97	17.93	17.21
CN-45	Simons-Gear's Accep	16/1/74	Apr	97	17.93	17.21
44 Nov	Monetary	9/1/4	Feb	90	1/2	16.13
						18.21

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Leading Marketmakers in Eurobonds **WestLB**
Westdeutsche Landesbank

Herald Tribune
BUSINESS / FINANCE

MONDAY, JULY 12, 1982

Page 7

Bond Markets Wary As Interest Rates Fall

By Carl Gewirtz
International Herald Tribune

PARIS — Incrédulous, investors sat on the sidelines last week as short-term dollar interest rates fell sharply.

There was no doubting the drop in rates. The cost of overnight money in New York tumbled about 2 percentage points to 12 1/2 percent while six-month Eurodollars ended the week at 15 1/2 percent, down from 16 percent Monday.

There was also no doubt why rates were falling: The Federal Reserve consistently funneled money into the market. But what troubled investors was the reason why the Fed was acting the way it was.

There appeared to be only two explanations. Either the Fed was relaxing its controls over the growth of bank reserves, and paving the way for a fall in interest rates, or it was seeking to calm financial markets reeling by the collapse of Penn Square Bank and spreading fears about the health and safety of U.S. banks.

Eurobond Yields

For Week Ended July 7

10% 10-yr. term	14.94 %
10% 10-yr. term, U.S.	15.79 %
10% 10-yr. term, U.S.	16.19 %
10% 10-yr. term, U.S.	16.19 %
10% 10-yr. term, U.S.	16.19 %
10% 10-yr. term, U.S.	16.19 %
10% 10-yr. term, U.S.	16.19 %
10% 10-yr. term, U.S.	16.19 %
10% 10-yr. term, U.S.	16.19 %
10% 10-yr. term, U.S.	16.19 %

way for a fall in interest rates, or it was seeking to calm financial markets reeling by the collapse of Penn Square Bank and spreading fears about the health and safety of U.S. banks.

Chase Manhattan and Continental Illinois were two banks that had bought substantial amounts of loans from Penn Square that turned sour.

Coming on top of the bad loans to International Harvester, Mexico's Alfa group, Poland, and Romania — to name just the obvious big ones — the Penn Square episode raised in many minds questions about how well-managed U.S. banks are.

"Crummy Little Outfit"

"When such crummy little outfits have such an impact on markets," one senior banker said, "you have to ask yourself what else is waiting out there to explode."

This nervousness was echoed elsewhere. The ratings of six major Canadian banks — Canadian Imperial Bank of Commerce, Royal Bank of Canada, Toronto Dominion Bank, Bank of Montreal, Bank of Nova Scotia, and Mercantile Bank of Canada — were reduced last week by the Dominion bond rating service, setting off a new round of the rating service attributed to the reduction in general economic confidence in Canada and the banks' traditional concentration of loans to specific customers and industries.

In West Germany, rumors were flying that at least one, maybe two banks were in trouble. Bank für Gemeinwirtschaft, a target of the rumors, felt obliged to deny publicly that it was in difficulty, a view the Bundesbank publicly seconded. But financial problems at Neuhof, a major housing development company, and AEG — coming on top of the West German banks' heavy exposure to Eastern Europe — are eroding confidence in the banks.

Meanwhile, the troubles at Banco Ambrosiano were provoking fears of a widespread financial scandal in Italy.

Typical Talk?

For one British banker, all of the talk about a systemic weakening of the banking sector was nothing more than "typical end-recession rumors — a sign that the tight monetary policy of the Fed is beginning to bite."

Nevertheless, the international market was considerably jaded. Prices of bank paper, particularly the issues of Continental Illinois and Canadian Imperial, were down three to four points, with most market makers refusing to quote a price. Overall, as Eurobond prices rose on the decline of short-term rates, the prices on floating rate notes (the vast majority of which are issued by banks) failed to follow the trend and eased slightly.

While the market tried to sort out whether the Fed had really changed policy or was just trying to calm the markets, the news late Friday that the U.S. money supply plunged \$3.7 billion in the latest week was greeted with considerable relief. The most optimistic forecast had called for a decline of \$2 billion, and the outcome lent credibility to the view that the Fed had shifted gears.

By the time New York markets closed, six-month Eurodollars were quoted at 14 1/2 percent, down 1/2 point from the close in London, while the dollar dropped to 2.4765 Deutsche marks from 2.49 at the close in Frankfurt.

New York analysts now anticipate a cut in the Fed's discount rate from the current 12 percent, and the long-ferred bulge in the money supply expected to be reported this Friday — the estimates range from \$3 billion to \$10 billion — looms as a less threatening event as the growth to date is \$5.5 billion below the Fed's upper target.

While Eurobond prices did rise last week, the improvement lacked conviction. Dealers admitted it was mostly a result of their marking up prices in line with the decline in short-term rates. But demand from retail and institutional clients remained stagnant.

Dealers did report substantial sales of bank paper, both fixed and floating, and the proceeds were invested in what dealers called "safe" issues — sovereign or supranational paper.

The most notable beneficiary of this so-called flight to quality was the European Investment Bank, whose \$100 million of 10-year bonds bearing a coupon of 15 1/2 percent were offered at a discount of 99 1/4 to yield 15.65 percent. The terms initially were rejected by the market as out of line with prevailing conditions and the paper was quoted on a when-issued basis of 96 1/4. But as the jitters spread, money looking for a safe haven pushed the price up to 98 1/4 by the close of business Friday.

Likewise, B.C. Hydro's 15 1/4 of 1992, guaranteed by British Columbia, ended the week at 98 1/4 and Caisse Centrale de Coopération Economique's 15 1/4 of 1992, guaranteed by France, ended at 98 1/4.

(Continued on Page 9, Col. 3)

Bechtel's Major Projects in the Arab World

Aug. 1974 Riyadh, Saudi Arabia Contracted to plan and design a \$100 million airport in the Saudi capital.	Sept. 1977 Yamou, Saudi Arabia Named prime contractor to conduct engineering studies and develop cost estimates for a large petrochemical complex at this Red Sea port.	Oct. 1978 Riyadh, Saudi Arabia Awarded a construction management contract for the \$3 billion Riyadh International Airport.
Jan. 1976 Akaw, Algeria Contracted to complete a \$100 million gas project that produces 1 million cubic feet a day.	Oct. 1977 Abu Dhabi Awarded a \$550 million contract with Chiyoda Chemical Engineering of Japan for a gas-gathering project in the Abu Dhabi region.	Aug. 1979 Cairo Bechtel International contracted to design and oversee construction of a 900-megawatt power plant near the Egyptian capital — a \$480 million project sponsored by the World Bank.
June 1976 Jeddah, Saudi Arabia Signed 20-year agreement for management and engineering services for the \$1 billion industrial project in the small fishing harbor on the Persian Gulf.	May 1978 Abu Dhabi Awarded a \$400 million contract for engineering, procurement and construction management of two natural gas processing plants.	Oct. 1980 Jeddah, Saudi Arabia Bechtel won an \$18 million contract to provide design and preliminary engineering for a 250,000-barrel-a-day refinery at this city on Saudi Arabia's western coast.

George P. Shultz
Shultz: McCall Report magazine

Shultz Places Bechtel in Spotlight Company's Arab Ties Cause Concern in Washington

By Thomas C. Hayes
New York Times Service

LOS ANGELES — It started out small and unobtrusively when a resourceful German banker named Walter A. Bechtel in 1938 hired out himself and a pack of mules to help build a railroad.

From such beginnings, the tiny California construction company blossomed into the giant of the engineering and construction industry, its builders dotting the landscape of the world with such engineering marvels as the Hoover Dam, the trans-Alaska pipeline and the Washington, D.C., subway system.

The company is no longer small; only governments can pay for most of the kinds of things it builds today. But the privately owned Bechtel Group has tried to retain the reclusive ways that have characterized its operations through three generations of Bechtels.

It issued its first annual report only three years ago, and company executives even now are hesitant to grant interviews.

Yet the secrecy that has enveloped Bechtel is expected to be lifted a bit by the appointment of George P. Shultz, its president until two weeks ago, to replace Alexander M. Haig Jr. as secretary of state.

As conflicts in Lebanon and Iraq threaten to recast U.S. interests in the Middle East, Mr. Shultz's activities at Bechtel involving Arab nations are expected to attract close scrutiny at the Senate Foreign Relations Committee confirmation hearings this week.

Certain to draw fire are Bechtel's links to Saudi Arabia, which said the company in obtaining the construction manager job on the Saudis' big Jubail development project.

As Bechtel's president, Mr. Shultz brought vital contacts with officials of foreign governments, particularly the Middle East, when soaring oil prices gave the energy-producing nations billions of dollars to spend on construction projects.

Mr. Shultz, in fact, has publicly questioned President Reagan's pro-Israel stand. "If I have any differences with Reagan," he said during the 1980 presidential election campaign, "it's about Middle Eastern policy" as set forth then by Mr. Reagan in a speech before B'nai B'rith.

In his eight years with Bechtel, which reported billings of \$11.4 billion last year, Mr. Shultz acquired a reputation as an efficient, pragmatic executive. His familiar face and polished manner made him a welcome and influential standard-bearer for Bechtel in the capitals of the Middle East. He is credited by associates with helping what may be the world's largest construction company to adapt to sweeping political and economic changes.

Bechtel is controlled and aggressively led by Stephen D. Bechtel Jr., 57, who is the chairman and chief executive officer, and who has also assumed the title of president. Mr. Bechtel, trained as an engineer and

(Continued on Page 9, Col. 7)

OPEC Risks a Free-for-All As Output Accord Unravels

By Bradley Graham
Washington Post Service

VIENNA — OPEC's production and pricing agreement has unraveled with the oil ministers' failure to decide how to deal with cheating by some members.

After two days of intense and often quarrelsome discussions, the ministers issued a communiqué Saturday announcing that they were suspending their deliberations "until further notice."

A New Glut?

Marc Nan Nguema, the organization's secretary-general, told reporters at a midnight news conference that all major elements of OPEC's production and pricing system — except for the commitment to maintain a \$34-a-barrel reference price — would come "under study," meaning that the rules were no longer in effect.

The failure to reach a decision by the 13 OPEC members raised the risk of a free-for-all among the oil exporters that could lead to a new oil glut and fiercely competitive price discounting.

Mr. Nguema said that a new set of rules for OPEC — covering individual output quotas, the total collective ceiling on production, and price differentials for the various nations' crude oil — would have to wait until ministers agreed to meet again and try to reach a new consensus.

A senior OPEC official acknowledged that the cartel's existing pricing structure had "proved" maybe not to be so effective as people had thought "in strengthening the demand for oil and disciplining OPEC."

Mr. Nguema acknowledged as much when he said: "We have a very difficult situation. We need more time for study."

Asked whether the organization was in disarray, Mr. Nguema said, "Maybe this is true."

He added that the cartel may have misjudged the quickness and degree to which demand for oil would strengthen following the March decision to limit production. "What is happening now in the market may be something of a structural matter," though OPEC may have been acting as though the decline in demand were only the result of a softening in the economy, Mr. Nguema said.

No Package

The meeting reviewed both production and pricing in a strained effort to shape a package that would maintain the basic \$34 per barrel for OPEC oil while accommodating increased production by some members.

Deputy Saudi Oil Minister Abdul Aziz Turki was vague about his country's future oil policy, saying,



Marc Nan Nguema

"We have Arabian light (crude), which Saudi Arabia is free to protect as it deems necessary. Now the price is \$34. It probably will remain so. I don't know."

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Oil Ministers Putting Hope in Self-Restraint

Compiled by Our Staff From Dispatches

VIENNA — Oil ministers asserted Sunday that OPEC would not allow the market to get out of control, but some observers were skeptical.

The Iranian oil minister, Mohammad Gharazi, said that he did not fear a collapse of oil prices despite the failure of the ministers meeting here to agree on a system of output restrictions. At a news conference, Mr. Gharazi echoed several other ministers in voicing the hope that each OPEC member would show self-restraint and avoid starting a price-cutting war.

The Saudi Arabian delegation chief, Abdul Aziz Turki, was less sanguine. "I hope OPEC will not be sorry," he said.

He said the collapse of the conference means his country is free to increase its voluntary limit of 7 million barrels a day or to change its \$34-a-barrel benchmark price.

One London-based oil trader commented: "It's obvious they're

in big trouble. They're all going to be grabbing for as much of the market as they can get."

Mr. Gharazi made clear Sunday he thought Iran had scored a moral triumph over the Saudis and taken a step toward reducing the power in OPEC of Saudi Arabia, which Iran regards as too accommodating to the West.

Mr. Gharazi said the Saudis had been isolated. Everyone had agreed that Iran should get a bigger quota, "but the problem was from whom. We thought that big brother should help, but big brother thought that the little brothers should do something."

OPEC's president, Eduardo Ortega, suggested that if the market appeared able to absorb surplus production, OPEC would not try to prevent members from producing beyond their quotas.

"Member countries are responsible people and they are not going to flood the market with oil," he said.

M-1 Report Sends Bond Yields Down Sharply

By Michael Quint
New York Times Service

NEW YORK — The Federal Reserve's report of an unusually large decline in money supply has strengthened hopes for lower interest rates.

"This may be a watershed for interest rates this year," Maury Harris, an economist at Paine

were offered late in the day at 103, up more than 1 1/4 points, to yield 13.86 percent, while the 14 1/2 percent notes due in 1989 rose 1 1/4 points to 102 1/8, to yield 13.9 percent. The 14 percent bonds due in 2011 closed at 104 1/4, up more than 1 1/4 points, to yield 13.42 percent.

Before the latest money supply data, many analysts feared that an early July bulge in money supply, which is expected to show up in next Friday's report, would cause the Fed to make reserves scarcer in the banking system, thereby pushing up interest rates.

Late Friday, however, analysts said the combination of slower-than-expected money supply growth, a weak economy and the growing number of bankruptcies would lead the Fed to push interest rates down slightly. Before the \$3.7-billion drop in the money supply measure, the analysts were uncertain if a weak economy and increasing bankruptcies alone would be reason enough for the Fed to make credit more plentiful.

Paul W. Boltz, a money market economist at Continental Illinois National Bank, concluded that the decline in M-1 to the lowest level since late February meant that the Fed can make credit, or reserves, more available to the banking system without being accused of "throwing in the towel" and creating too much money that it would revive inflationary expectations.

"The Fed is now engaged in a move to make reserves more available," Mr. Boltz said. He estimated

that the increased availability of reserves in the banking system pointed toward a 13 percent rate for overnight bank loans in the federal funds market, down from the average of 14.47 percent in the week ended July 7. Other analysts said that the funds rate might drop to between 12 percent and 13 percent and that in a few weeks the Fed may cut the discount rate, the fee it charges on loans to banks, from the current level of 12 percent.

The M-1 money supply measure consists of currency plus checking accounts at banks and thrift institutions that fell \$321 million, to an average of \$734 million. Because there were \$694 million of excess reserves, the Fed borrowed reserve position of the banking system fell \$618 million to only \$40 million.

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Fed Backs Citicorp Computer Plan

New York Times Service

NEW YORK — The Federal Reserve Board has cleared the way for Citicorp to enter the data processing and transmission business through a subsidiary to be known as Citishare.

The board's 6-to-0 vote Friday approving Citicorp's application was a victory for the bank holding company in a three-year battle with computer services companies that contended Citicorp would be able to offer unfair competition because of its existing contacts with potential customers.

Patrick J. Mulhern, Citicorp senior vice president and general counsel, said the ruling would clear the way for the holding company, parent of the nation's second-largest bank, to offer such new services as banking at home on computer terminals and electronic publishing of financial and economic data, which Citishare's customers would be able to read on computer terminals.

"It sounds as though what we asked for, we got, pretty much," Mr. Mulhern said. "It will have real significance in our being able to compete in the new world of technology, and we couldn't be more pleased."

The pace-setting Federal Reserve Board ruling is expected to clear the way for other bank holding companies to enter the rapidly growing field of data processing.

The Fed said it found no evidence that, as the computer service firms fear, Citicorp would use its sales of computer services to making of loans through its Citibank unit or that it would subsidize its computer services with revenue from other activities.

Citicorp was not given a carte blanche entry into computer services, however. Its activities must be restricted to "banking, financial and economic data."

Jerome Dreyer, president of the Association of Data Processing Service Organizations, which represents computer service companies, said it was likely the company would appeal. But he said the decision was not as permissive in allowing Citicorp's expansion as he feared it would be.

Banks already engage in data processing and transmission for their internal needs and for their banking customers. Computers, for instance, are used to keep track of bank balances and for financial analysis. Automatic teller machines represent a form of data processing and transmission.

The Fed ruling allows Citishare to offer computer programs, services and hardware to other banks, businesses and consumers, thus putting it into competition with computer companies.

According to its application, Citicorp is considering a wide range of services. It expects to sell programs on a time-sharing basis to other banks and businesses, allowing them to perform such tasks as credit analysis and financial modeling. It plans to provide accounting, bookkeeping and economic forecasting for business generally. It also wants to provide customers with access to data bases containing information such as economic statistics and foreign currency quotes that are stored in Citicorp's computers.

CURRENCY RATES

Interbank exchange rates for July 9, excluding bank service charges.

	\$	£	D.M.	F.F.	Y.	S.F.	S.P.	D.L.
Amsterdam	2.73	4.74	110.33	36.85	1.192	17.28	5.789	129.49
Bremen (a)	4.24	4.87	19.815	4.856	2.402	17.28	5.789	129.49
Frankfurt	2.49	4.87	19.815	4.856	2.402	17.28	5.789	129.49
London (b)	1.773	—	—	—	—	—	—	—
Paris	1.264	2.492	59.80	20.31	—	507.35	25.59	66.40
New York	—	1.768	0.481	0.148	0.022	0.844	0.071	0.118
Zurich	4.023	11.54	27.85	—	—	21.85	14.30	20.46
1 ECU	0.478	0.596	2.341	0.577	1.224	2.089	4.80	2.015
1 SDR	1.0615	0.613	2.701	0.727	1.514	2.592	5.1673	2.283

Dollar Values

	\$	£	D.M.	F.F.	Y.	S.F.	S.P.	D.L.
Amsterdam	1.814	—	—	—	—	—	—	—
Bremen (a)	0.857	1.749	0.859	—	—	—	—	—
Frankfurt	0.815	—	—	—	—	—	—	—
London (b)	0.815	—	—	—	—	—	—	—
Paris	0.7813	—	—	—	—	—	—	—
New York	0.143	—	—	—	—	—	—	—
Zurich	0.299	—	—	—	—	—	—	—
1 ECU	0.041	—	—	—	—	—	—	—
1 SDR	1.0615	—	—	—	—	—	—	—

Shilling: 1.2595 Irish L.

(a) Commercial trans. (b) Amounts needed to buy one pound. (*) Units of 100, (L) Units of 1,000.

Advertisement for Solicitation of Potential Specialized Suppliers for Vocational Training Equipment and Shop Furniture

The General Organization for Technical Education and Vocational Training is soliciting responses from specialized suppliers and export/import firms interested in supplying general shop equipment and shop furniture for eight vocational and pre-vocational training centers nearing completion throughout the Kingdom of Saudi Arabia. These centers are located in Riyadh, Jeddah, Dammam, Al-Qasim, Taif, Al-Hasa, Abha and Najran.

Type of shops to be in these centers are refrigeration, appliance repair, sheet metal, woodworking, plumbing, trowel trades, industrial electricity, constructional electricity, welding, machine shop, autobody repair, and automotive trades.

Expressions of interests should be received in Riyadh not later than 4 August 1982 and should be on company letterhead with the return address, telephone and telex numbers of the requesting company. The letter should be signed by a responsible officer of the company, also citing his printed name and title.

Each firm submitting an expression of interest letter will provide as part of their response, official certification that their firm can meet the following minimum requirements:

1. The responding firm has been in business as supplier/exporter of this kind of equipment for not less than five years.
2. The firm has supplied the general shop equipment and furniture described above or other similar industrial equipment within the last five years with a total delivery value of not less than S.R. 50,000,000.
3. The firm has a minimum of at least twenty full time permanent staff.

Prequalification questionnaires will be issued to interested firms and a deadline date will be indicated for receiving data required. Data received will be evaluated by a committee for the purpose of developing a short-list of highly qualified firms. Requests for price proposals will be extended only to this short-list of highly qualified firms.

Firms desiring prequalification documents should respond to:

The Director General,
GENERAL ORGANIZATION FOR TECHNICAL EDUCATION
AND VOCATIONAL TRAINING,
Vocational Training Directorate,
P.O. Box: 6743,
Riyadh,
SAUDI ARABIA
Telex N. 202629 VOTRNG SJ.

Over-the-Counter

NEW YORK (AP)—Weekly Over the Counter stocks giving the high, low, and last bid prices for the week with the net change from the previous week's last bid prices. All quotations supplied by the National Association of Securities Dealers, Inc. are not actual transactions but are representative interdealer prices at which these securities could have been sold. Prices do not include retail markup, markdown or commission.

[illegible]

Over-the-Counter

[illegible]

Over-the-Counter

	Amelia A	505	134	129	13	12	12
	Amelia B	505	134	129	13	12	12
	Avignon	505	134	129	13	12	12
	BACCO 1.0	505	134	129	13	12	12
	BACCO 1.5	505	134	129	13	12	12
	BACCO 2.0	505	134	129	13	12	12
	BACCO 2.5	505	134	129	13	12	12
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Banks Preparing to Offer Hungary A Credit of at Least \$200 Million

By Carl Gewirtz
International Herald Tribune
PARIS — A group of international banks is scheduled this week to offer Hungary a loan of at least \$200 million for three years.

Ten of the 19 banks invited have agreed to participate in such a loan, bearing interest at 1 1/4 percent.

SYNDICATED LOANS

over the London interbank rate, and another has tentatively accepted.

The group includes four U.S. banks, two French banks and one bank each from West Germany, Austria, the Middle East and Japan. The tentative acceptance is from a British bank.

Half of this group agreed to underwrite \$25 million each while the others were willing to put up only \$20 million. The lower figure was finally chosen but it is expected that when completed the syndicate will comprise 15 banks—bringing the total to \$300 million.

The operation has generated considerable comment in the market, with a number of loan officers scoffing at its significance.

"This is not a market loan if the only way it can get done is for the vice chairman of one bank [Manufacturers Hanover Trust, which is coordinating it] to call the vice chairman of other banks," said one critic.

Policy Making

But those involved in the deal rejected this criticism. "Loan officers don't make bank policy," said one senior banker. "If banks hadn't stopped lending to Hungary and asking for their deposits back, there'd be no problem. It's only at the senior level of management that a decision can be made to resume business."

"The significance of this operation," he added, "is that it is a clear sign of the degree of faith by a broadly based group of major banks that Hungary deserves support. It definitely is a positive development."

Nevertheless, the question remains whether the willingness of these banks to make this loan, coupled with \$310 million from major central banks and an upcoming credit from the International Monetary Fund, will unblock Hungary's access to the Euro market.

Also scheduled to be launched shortly is a \$750-million loan for New Zealand Refinery Co. to finance the expansion of New Zealand's only oil refinery. Terms are expected to be broadly similar to those of its \$500-million, 12-year credit signed in 1980. Interest on that loan was set at half a point over Libor for the first three years,

rising to 3/4 point for the next five years and 1/2 point for the final four years.

Public Power Corp. of Greece is scheduled to award a mandate for its \$250-million loan early this week. Four syndicates are bidding for the business. Up to \$50 million is expected to be raised as a floating rate note—a disguised syndicated credit whose higher commissions will fatten the return to banks and enable a cosmetic lowering in the terms of the companion syndicated credit.

Cosmetic Question

The remainder will be raised as a classic syndicated credit. Still undecided is whether the cosmetic reduction in Greek borrowing costs, relative to the central bank's recent eight-year loan carrying a half-point margin over Libor, gets translated as a longer maturity or a lower margin.

Primer is raising \$500 million in a one-year transaction priced at half a point over Libor. The loan is a pre-financing of oil sales to Cie. Francaise des Petroles (\$300 million) and Italy's Agip (\$200 million). A similarly structured \$300-million loan is being arranged with Canadian banks.

Also turning to the short-term market is Uruguay's hydroelectric agency, Palmar. Interest on its \$130-million, one-year loan is to be set at one point over Libor. Uruguay last year paid a split 3/4-to-1/2 point over Libor for 10-year money. The current loan can be extended twice, for a total life of three years. If leaders desire, and each time Uruguay is to pay a 1/4-percent extension fee.

Venezuela, meanwhile, which turned down bankers' terms on a proposed jumbo loan, has arranged a \$200-million loan from a group of Japanese banks led by Sumitomo. The eight-year loan is said to carry a margin of 1/2 point over Libor. This is one year longer than proposed for the jumbo and a quarter of a point cheaper.

Venezuela is raising a \$100-million, one-year loan in general syndication carrying a margin of half a point over Libor.

Unusual Fees

Eletronil, a 98-percent owned subsidiary of Brazil's Eletronbras, is seeking \$135 million for eight years, offering 2 1/4 points over Libor or 1 1/2 points over the higher of either the prime rate or the adjusted rate for 90-day certificates of deposit.

Of special interest are the fees, which can run up to a very hefty 2 1/4 percent. The basic fees range from 1/4 percent for participants taking up to \$2 million to 1 1/4 percent for managers taking \$5 million or more. For banks taking the

Eurodollar portion, additional fees ranging from 1/2 to 1 percent are offered. These latter commissions are shaved by half a point for banks exercising an option to take additional loans guaranteed by the West German or Italian export credit agencies.

For every \$1 of the Eurodollar credit, banks can take half a dollar equivalent of a 10-year Deutsche mark loan guaranteed 100 percent by Italy's Socre. Or banks can take the equivalent of 25 cents worth of a 12-year DM loan guaranteed 95 percent by Hermes.

France's recently nationalized Pechiney Ugine Kuhlmann is raising \$100 million. The seven-year loan is being syndicated only among French banks—a fact explained perhaps by the low margin of 1/4 point for the first three years and 1/2 point over Libor thereafter.

Sudanese Payment

LONDON (Reuters) — Sudan hopes to be able to make a \$22-million interest payment to banks, due last Tuesday, sometime later this month, banking sources said Friday.

Sudan failed to meet the deadline for the quarterly interest payment to its 100 or so commercial bank debtors because of a cash-flow problem, they said.

The problem has arisen largely because of the refusal of the IMF to allow the country to draw on its standby credit facility, the sources said.

A Battle for U.S. Sweet Tooth

By Randolph E. Bucklin
Washington Post Service

WASHINGTON — The maker of Hershey bars has discovered it is hard to resist pressure to raise prices.

Between last fall and this spring, executives at Hershey Foods unsuccessfully struggled to maintain the price of their candy bars at 25 cents while M&M's was charging 30 cents.

Management at No. 2 Hershey believed consumers would shy away from paying 30 cents for Mars' candy bars, which include Three Musketeers, Snickers and M&M's.

After six months of holding the line, Hershey abandoned its low-price market strategy in March, announcing a price increase to 30 cents and an average increase in the size of its candy bars of 28 percent.

The new Hershey products are now reaching supermarkets and other retailers in the candy distribution chain.

Hershey's move to the 30-cent price marks a victory for recent market strategy by Mars. Hershey apparently went along with 30-cent prices for two major reasons: Its battle plan was frustrated by retailers who decided to charge 30 cents across the board for candy bars, and it was losing market share to Mars anyway.

This most recent episode in the continuing battle for the allegiance of America's sweet tooth is a year and a half old. It began when Mars, which was losing market share to Hershey, boldly broke with candy industry tradition by increasing candy-bar size without raising prices.

The move caught the whole industry off guard," says Janet Kirt, who watches the candy business for American Consulting in Chicago. "All of a sudden Mars was out there with bigger bars."

Smelling a bargain, candy buyers turned to the bigger Mars products and the company's market share went from 37.8 percent in July, 1980, to 41.1 percent in July, 1981.

Hershey lost market share, dropping from 27.3 percent to 26.9 percent. Two other major candy manufacturers also lost share to Mars. Peter Paul,

maker of Mounds and Almond Joy, dropped from 7.6 percent to 6.7 percent, and Nabisco Brands, maker of Baby Ruth, Butterfinger and Junior Mints, fell from 8.2 percent to 7.3 percent.

In the \$5-billion-a-year candy business, 1 percent change point of market share represents \$50 million in sales.

About nine months ago, Mars increased its prices from 25 to 30 cents, a move that should have been to Hershey's advantage. Although it had smaller bars, Hershey also had lower prices and was selling its candy at about the same cost per ounce. Hershey decided to stand and fight at 25 cents.

But Hershey's strategy, backed by pointed advertising, was scuttled by most candy retailers who refused to deal with two prices, going with the higher one.

"The mom-and-pop store doesn't want to bother with 'Is this bar Hershey's,' or 'Is this bar Mars,'" the American Consulting analyst said. "It was very difficult for (Hershey) to maintain the 25-cent price at retail level."

Continuing drops in cocoa prices helped Mars decide to make bigger bars for the same price. Cocoa powder accounts for about 40 percent of all ingredients used by U.S. candy manufacturers; raw materials make up 48 percent of candy production costs.

Mars traded some short-run profit for gains in sales, but as the prices of sugar and cocoa declined substantially over the past 18 months, Mars' gamble paid off handsomely.

It is impossible to tell exactly how successful Mars has been, because the Fairfax, Va., company is privately owned. Sales are estimated at more than \$3 billion, of which 40 percent is candy.

Industry analysts believe, however, that it was Mars' private ownership that allowed it to take a long view on profit. "Mars can pursue an aggressive strategy," said Lee Taves, an analyst with Oppenheimer & Co. in New York. "It can sacrifice profit for a year."

Because Hershey is publicly held, pressure to maintain high profit, even in the short run, is likely to be stronger than at Mars. Mr. Taves said. "Hershey is at a disadvantage."

Shultz Places Bechtel Under the Spotlight

(Continued from Page 7)

With a master's degree from the Stanford Business School, took control of the company in 1960, succeeding his father, Stephen Sr. The father led the company to prosperity during World War II by building Liberty ships. After the war, he shifted into oil refineries and then nuclear plants, while continuing to bolster the company's pipeline activities.

Family Control

The Bechtels — one of the world's richest families as a result of their company's enormous success — control 40 percent of the company's stock, and 56 executives share the rest. The company has in recent years broadened its reach overseas, particularly in Indonesia and other developing Asian nations and the Arab Middle East.

It has shed partially the restrictive habits that occasionally invited political controversy, and it has diverted portions of its mounting cash reserves into partnerships and investments outside of the engineering and construction realm.

Last year, Bechtel reorganized its corporate structure to allow firmer control of its myriad projects. At the top of the Bechtel totem pole is Sequoia Ventures, which holds the family's shares in the company. (Sequoia also owns 80 percent of Dillon, Read & Co., a New York investment bank.)

Beneath Sequoia is the Bechtel Group, a holding company composed of three main operating arms: petroleum engineering, power engineering and civil engineering and mining. There is a fourth operating arm that hunts for investing places to invest the group's money and rustles up new business.

Of Bechtel's projects valued at \$50 million and above, half are outside the United States. The company has never been involved in a project in Israel. This is partly a matter of politics and partly of economics. Arab states ban contracts with any U.S. supplier that does work in Israel. Then, too, Israel's own construction technology is so advanced, and its work force so sophisticated, that the country has been able to do most major building projects on its own.

Aroused Suspicions

Because of its Arab ties, Bechtel has aroused the suspicions of Israeli supporters. In 1976, it became the only company accused by the Justice Department of refusing to subcontract work to companies blacklisted by the Arab League of Nations. The Justice Department charged that Bechtel and four of its divisions or subsidiaries had refused to subcontract work in the Middle East to U.S. companies blacklisted by the Arab League as part of their economic boycott of Israel.

The dispute was settled out of court when Bechtel agreed to a consent decree stating it would not participate in an Arab boycott. Bechtel subsequently sought to change its position, arguing that the Arab boycott, being political, was beyond the scope of the Sherman Antitrust Act. A federal judge, however, signed the consent judgment in 1979.

The restructuring in late 1980 was meant to clarify reporting lines and delegate authority into smaller corporate units. The idea was to encourage Bechtel managers to react more quickly to what Mr. Bechtel, Mr. Shultz and other top executives anticipated would be new opportunities and increased competition for Bechtel worldwide.

"Newly industrialized countries are capturing a bigger share of world markets, and will probably be producing 25 percent of the world's goods by the end of the decade," Mr. Bechtel told a gathering of managers this spring. "We must identify these new areas and be more aggressive selling ourselves in these difficult markets."

It was in setting the new strategy that Mr. Shultz made his influence felt, in part through his analysis of international economics and his professional knack of soliciting opinions and directing strategy discussions at meetings of Bechtel's seven-member executive committee, according to one member, Steven V. White.

Mr. White said it was not Mr. Shultz's government contacts alone that caught Mr. Bechtel's eye, but rather Mr. Shultz's familiarity with international economics, labor issues and finance.

Also, Mr. Shultz's understated, pragmatic manner fit well with an organization dominated by engineers who had worked their way to the top managing the mammoth projects that were Bechtel's staple.

U.S. Farmland Values Show a Decline of 1%

WASHINGTON — The value of farmland in the United States declined an average of 1 percent between February, 1981, and April, 1982, the U.S. Agriculture Department said Friday.

In a summary of its farm real estate report, the department said the value of farmland has dropped to an average of \$788 an acre. The decline follows increases of 16 percent in 1979 and 9 percent in 1980. Despite the decline in land values, cash rents for farmland were generally higher than a year ago, the department said.

The department also reported that the rate of farm transfers has slowed in recent years in response to lower farm income.

Bond Markets Wary of Fall in Interest Rates

(Continued from Page 7)
anted by France, were quoted at 98 1/4.

But the \$75-million issue for Australia's Colonial Sugar Refining, offered at par bearing a coupon of 16 percent, ended the week at 97 1/4. Bucking the trend was Ohio Edison's five-year note bearing a hefty 17 1/4 percent coupon. Priced at par, the issue was increased to \$75 million from the \$50 million initially indicated and ended the week at 101 1/4.

Crédit Foncier, guaranteed by France, is offering \$200 million of seven-year notes with a novel formula. The paper, which bears interest at a thin 1/4 point over the London interbank rate for three-month Eurodollars, is convertible into fixed rate bonds bearing a coupon of 12 1/2 percent and maturing in 1992. The conversion can be made at any three-month coupon fixing for the first three years.

Long Option Period

Lead Manager Crédit Commercial de France says the formula allows investors a long option period and the borrower an ever-decreasing cost of money.

Banque Worms, recently nationalized by the French government, is offering \$75 million of 12-year notes with interest set at 1/4 point over the mean of the bid-asked six-month interbank rate (in effect 1/4 point over the offered rate). Holders can request redemption after seven years or 9 1/2 years. A minimum coupon of 3/4 percent is guaranteed. The issue was reported to be much less well-received than Crédit Foncier's.

At the first coupon fixing in October, an investor converting a \$1,000 note into a \$1,000 bond

would receive a cash payment of \$147.73. In effect, this means the bond is being purchased at a price of \$852.27 for a yield of 15 1/2 percent. The cash payment drops by about \$12 every three months, reducing the effective yield of the bond by a quarter-point to 12 1/2 percent by the final exercise date of July, 1985.

Lead Manager Credit

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Ltd., the Australian mining company that itself is controlled by Rio Tinto-Zinc, is offering \$250 million of eight-year notes with interest set at 1/4 point over Libor. Holders can redeem the notes at every six-month coupon date. The managers collect an annual underwriting fee for assuring the sale of the notes, and a panel of 30 banks will bid for the paper at prices they believe they can sell to their clients. A similar formula, which is standard in Australia, was used when MIM Holdings sold \$100 million of floating rate notes in May.

The Deutsche mark's weak performance on the foreign exchange market and renewed fears that the government will not be able to hold its 1983 budget deficit to its projected 28 billion DM contributed to a weakening of DM Euro-bond prices.

As a result, the coupon on Emhart's 100-million-DM, seven-year issue was increased to 9 1/4 percent from the indicated 9 1/8 percent. But priced at a discount of 99 1/4, the issue was quoted Friday at 97 1/4.

The private placement for South Africa's Post Master General was cut to 50 million DM from the expected 75 million DM. The five-year issue is being offered at par bearing a coupon of 10 1/4 percent.

A 100-million-DM issue for France's Caisse Nationale des Télécommunications, which was expected to bear a coupon of 9 1/2 percent, came to market at 9 1/4 percent but still received a cool reception, quoted on a when-issued basis at a discount of 1 1/4 points from the expected par pricing.

As a result of the deterioration in the market, the scheduled issues for Bank of America and Gillette have been canceled. Only one issue — a 200-million-DM bond for the World Bank — remains on the calendar.

In an effort to stem the capital outflow from West Germany, the Bundesbank has extended the limit on the size of individual issues to include loans extended to foreign borrowers by banks. This would put a cap of 75 million DM on loans to all except supranational and sovereign borrowers.

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